A Study On The Financial Feasibility Of Operating A Beef Slaughterhouse Within The State Of Montana

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A STUDY ON THE FINANCIAL FEASIBILITY OF OPERATING A BEEF SLAUGHTERHOUSE FACILITY WITHIN THE STATE OF MONTANA

Prepared For:

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CHAPTER 1

INTRODUCTION

In January of 1986, the Montana Department of Agriculture issued a Request for Proposal for Consulting Services to assist the Department in developing a feasibility study. The overall purpose of the study was to analyze the financial feasibility of reestablishing the slaughterhouse industry in Montana. At the time of the study, other than very small custom slaughter operations (less than 200 head per week), there were no beef slaughterhouse facilities operating within the state.

R. G. Dickinson and Co., as Project Manager, was the successful bidder on the Request for Proposal for the study. The study consisted of a detailed analysis of the then current facilities of Midland Packing Company (Midland Foods, Inc.) and Yellowstone Beef Processors, Inc. (formerly K-K Packing). Both of the facilities are located within the Yellowstone Valley with Midland Packing at 800 Minnesota Avenue, Billings, Montana and Yellowstone Beef Processors at South Frontage Road, Laurel, Montana (approximately 8 miles west of Billings).

Along with the specific analysis of the above two facilities, it was agreed between the Project Manager and the Department, that an assessment would be made regarding the general feasibility of locating a slaughterhouse facility in the state of Montana.

CHAPTER 2

PURPOSE AND SCOPE OF THE STUDY

The Beef industry in Montana has its roots which date to the establishment of the general area of Montana as a U.S. Territory in 1864. For over 120 years, the industry has been a powerful economic and political force. With its relatively large land mass, coupled with a relatively small population, the state has been ideally suited for grass fed cattle production. Since the turn of the century, and up until approximately March of 1985, the cattle producer, both grass and grain fed, has had a sizable beef slaughter-house located within the state of Montana to purchase and process live cattle into red meat. With the closing in March of 1985 of Midland Packing, the opportunity came to an end for the cattle producer to sell in quantity to the last, relatively large in-state meat packer.

An inventory of live cattle in Montana over the last 12 years is listed below.

ALL CATTLE AND CALVES
(000) HEAD

1975	1976	1977	1978	1979	1980
3,340	3,150	2,980	2,680	2,607	2,645

1981	1982	1983	1984	1985	1986
2,675	2,900	2,990	3,150	2,960	2,450

SOURCE: MONTANA CROP AND LIVESTOCK REPORTING SERVICE

This inventory shows that obviously Montana has followed the national trend over the same 1975-1986 period of declining inventories of live cattle. Despite the decline, from initial inspection the question has been put forth----

> "given the apparent satisfactory inventory of live cattle in Montana, why is there no in-state meat packer of sufficient size?"

Quite simply this study is devoted toward answering that question of apparent excess supply of live cattle and correspondingly no demand by an in-state meat packer for that supply.

For many obvious and not so obvious reasons, the question of the financial feasibility of an in-state meat packer is far more complex than just the apparent proximity to a supply of live cattle. It was the intention of the Project Manager to approach the study primarily from a financial standpoint consideration. This meant a detailed analysis of the financial capital needs of an in-state meatpacker and the subsequent use of that capital in the generation of profit or loss from operations. Of secondary consideration to the Project Manager was the emotional, environmental, community and political issues which will be defined from this standpoint as intangibles. Obviously, primary and secondary issues cannot be always clearly defined as one or the other. For example a meat packer has

an environmental problem if the waste water generated from operations at a facility exceeds water quality standards for purity and is put back into a flowing stream. This is also a financial problem when the Water Quality Bureau attorneys arrive with an injunction.

Midland Packing Company and Yellowstone Beef Processors as well as a hypothetical alternative meatpacking facility are discussed as separate chapters in the study. The financial statements which correspond to each chapter are found in Appendixes A1-A15 in the back of this study. The appendixes are preceded by narrative summaries desribing the conditions and variables for each statement. Both the dicussion in the appropriate chapters and the appendix summaries should help the reader of this study understand the reasoning and purpose for these proforma statements.

For the benefit of those desiring a quick appraisal of the results of this study, a summary and conclusion is included with each chapter.

CHAPTER 3

PROJECT MANAGER AND SUBCONTRACTORS

Project Manager

Harry A. Brennan
Vice President-Corporate Finance
R. G. Dickinson & Co.
Des Moines, Iowa 50308

R. G. Dickinson and Co. is an Iowa based regional financial services firm serving individual, institutional corporate, public and municipal clients. The firm was established in 1955 and currently has a staff of approximately 320 employees.

More specifically, the Corporate Finance Department serves clients located throughout the United States with services such as management and syndication of public offerings, merger and acquisition assistance to corporations, asset based lending, venture capital, business valuations and general consulting.

Subcontractors

Arnold K. Schandelson, CPA
Dale R. Bimler, CPA
Independent Management Service (IMS)
Great Falls, Montana

Independent Management Service is a consulting firm specializing in accounting, management and computer assistance. IMS was chosen to provide analysis of historical operating results of the meat packing facilities in the study and for their extensive skills in financial model creation for the proforma financial statements.

L. Dwayne Barney, Jr. PhD
Assistant Professor - Agricultural Economics and Economics Dept.
Montana State University
Bozeman, Montana

Dwayne Barney couples his doctorate in Economics with an understanding of production costs in the slaughterhouse industry and the problems and potentials that Montana has in marketing beef products. Among his publications was the article "Montana and International Meat Markets: What's the Beef?" which was published in the Winter 1985 issue of the Montana Business Quarterly.

Donald Weisgerber
Billings, Montana

Don has 16 years experience in the slaughterhouse industry where he worked in all aspects of the killing and dressing operation, including 10 years as a plant superintendent. His knowledge of the Midland packing facility and Yellowstone Beef Processors facility was specific and extensive and he was chosen to aid in the analysis of the physical conditions of those facilities.

Robert F. Sawinski
Asheville, North Carolina

Bob is a consulting industrial engineer with 41 years experience in the slaughterhouse industry. His expertise was applied in the area of operations including labor staffing of the facilities at various rates of slaughter, retrofitting for efficiency on the killing, boning and

shipping floors of both equipment and work stations, and carcass and boning yield analysis.

Norbert Goskowicz
Chicago, Illinois

Norb is a facilities engineer with 37 years experience in the slaughterhouse industry. He has participated in numerous slaughterhouse facility evaluations for his current employer, a major international pork and meat packer. His expertise was applied in the area of analysis of plant and equipment including physical condition of the facilities, needed modernization of the facilities, analysis of cooler and freezer capacity, and analysis of both the rendering and waste disposal systems of the two facilities in the study.

Joseph O'Bryant
Orlando, Florida

Joe retired as Senior Vice President for Operations at Swift Independent, the nations' largest fresh meat packer. His insight was applied in analyzing the transformation of the slaughterhouse industry over the last 30 years and how the industry is viewed by one of the dominant participants in the industry.

Mark Thompson
Steve Cromwell
Billings, Montana

Mark and Steve were responsible for some of the "leg work" in the Billings area including collecting data from

OSHA, FDA, Montana Water Quality Bureau, etc. In addition, they interviewed Billings business and political leaders for their insight into the meatpacking business in the Yellowstone Valley. Mark has been a Montana delegate to National Cattle Feeder Association conventions.

Neither the Project Manager, nor any of the Subcontractors, with the exception of Mr. Weisgerber, has an interest in the slaughterhouse industry, feeder cattle operation, cow/calf ranch, fresh meat broker, or any other operation that would be construed as a conflict of interest in regards to this study.

CHAPTER 4

THE STUDY

THE SLAUGHTERHOUSE INDUSTRY AND RED MEAT CONSUMPTION PATTERNS

An examination of the slaughterhouse industry shows that the industry has almost completed a full cycle of expansion and contraction in the number of firms in the industry. This cycle has its roots in the first two decades of this country which provided major structural changes in the industry, most of them mandated by the Federal Government. The two changes which altered the industry in an abrupt manner were driven by both social and financial forces.

In 1906, the United States Department of Agriculture, which historically had left the slaughterhouse industry alone, began inspecting meat. In many ways this was forced from public outcry to Upton Sinclair's book, "The Jungle", which exposed the unsanitary conditions of the industry. The USDA followed up their inspections with the establishment in 1927 of varying grades for red meat to assist the consumer in determining the quality of the meat.

Together with this hands-on interaction with the operations of the industry by the Federal Government, the basic structure of the industry participants was changed with the use of the Fed's anti-trust powers. In 1920, four large packers called the "Beef Trust" controlled the supply and pricing of all fresh meat. These four packers, Swift,

Armour, Wilson and Cudahy, were broken up by the Fed and the industry splintered into literally hundreds of independent meatpackers along with the stripped down large packing companies. Along with the competition came a complacency as to technology and efficiency. A meat packer of 30 years ago did not need to concentrate on cost savings, quality control, or modernization in slaughter techniques because of a fairly captive market of consumers in the immediate surrounding area.

However, in the early 1960's a company appeared which had an enormous impact on the decades-old traditions in the packing industry. This company, Iowa Beef Processors (IBP), revolutionized the industry with increases in slaughter efficiency, reduction of costs associated with slaughter, and aggressive marketing of IBP meat products.

Prior to IBP, a majority of slaughter costs were associated with the skilled labor at the slaughter facilities in the form of meat cutters. Traditional methods of slaughter were highly labor intensive revolving around the meat cutter and his/her skill with a hand knife. After the kill, one individual was responsible for literally breaking the entire animal down to quartered carcass cuts, including removing the hide, head, legs, offal, renderings, and non-edible components. The individual meat cutter was highly skilled and paid accordingly. Once the quartered carcass was prepared, the carcass was allowed to age in a natural air environment for

1 to 5 days before being shipped to the retail grocer. Once at the grocer, the individual cuts of ribs, roasts, loins, shoulders, briskets, grinding meat, flanks and etc. were produced by again, a highly skilled butcher. A retail consumer then made a choice of a particular cut.

With the advent of Iowa Beef Processors in the early 1960's, the beef slaughterhouse industry underwent a change toward kill and shipping efficiency which continues to this day. IBP pioneered the concept of "boxed beef", which involved breaking the animal carcasses down to primal cuts at the slaughter facility, wrapping the primal cuts in airtight plastic and shipping the red meat in 50 to 100 pound boxes to the grocer.

The advantages of boxed beef were longer shelf life for the red meat and less shipping costs. In the former, the shelf life of red meat moved from a 7 to 10 day period to a 30 to 45 day period. This allowed boxed beef to be shipped far greater distances and to warehouses or wholesale distribution channels. A packer could begin to access markets of 1000 to 1200 miles away which were formally left to a local packer. Also, the 25% of the carcass which was bone and fat was left on the slaughter facility floor rather than being shipped at a substantial cost. Boxed beef became the norm in the red meat market and those older, traditional packers with the 40 to 60 year old plant and equipment got left behind in efficiency. The new slaughter facilities were built around the concept of boxed beef.

Along with the boxed beef concept came the move to increased labor efficiency. Labor has historically been the largest component of the cost per head of slaughter. IBP reduced the need for the skilled butcher handling all tasks of carcass breaking by turning the breaking into separate functions on a "disassembly" line process. Work stations were set up in the new slaughter facilities and manned by individuals responsible for only one function.

An animal was brought into the plant and one individual was responsible for the kill, another responsible for removal of the head, another removed the legs, another pulled the hide off the animal, another sawed the carcass in half, another again sectioned the halves and then the quartered carcass parts were taken to the fabricating room to be boned or cut into the primal cuts. While the carcass was moving other individuals were responsible for saving the edible and inedible renderings and the specialty meats such as tongues, tripe, head and cheek meat, briskets, hearts, brains, etc. Once in the fabricating room the carcasses were processed into primal cuts, quick frozen with CO_2 and cryovaced into airtight plastic and placed in the boxes for shipment.

The need for highly skilled workers in the old slaughter facilities was reduced to a more unskilled need. Consequently, the pay cost to the individuals in the new facilities was substantially less than prior pay cost. As can be expected, meat packers with higher labor cost conditions cannot compete with those meat packers utilizing

lower labor costs.

The most vivid example of a meatpacker attempting to obtain wage concessions from unionized workers is apparent with the strike at the Hormel plant in Austin, Minnesota by United Food and Commercial Workers (UFCW). Back in 1984, the initial rumblings of the labor strife to come was noted in a Business Week article...

> After decades as the largest and most paternalistic employer in Austin, Minn., George A. Hormel & Co. is turning into a tightfisted distant relative. When the meatpacking company imposed a 23% cut in wages on 1,700 members of the United Food & commercial Workers on Oct. 8, more than 3,000 people-out of 23,000 town residents-showed up at a meeting to chart plans for a possible strike. And Austin Mayor Thomas H. Kough-a Hormel rank and filer for 24 years who defeated a Hormel vice-president for the office two years ago-organized a rally of business people to discuss the wage cut's potential damage to the local economy.
>
> The buzz saw Hormel faces in Austin, a company town 100 mi. south of Minneapolis, underscores the difficulties it and General Foods Corp.'s Oscar Mayer & Co. are having getting wage concessions long since won by many competitors. In 1983, Wilson Foods Corp. filed for Chapter 11 bankruptcy protection and abrogated its labor contracts. Armour Food Co. closed most of its plants and opened them under new ownership with non-union labor earning as little as an estimated $8 an hour in wages and benefits-compared with more than $20 at Hormel and Oscar Mayer. L. Knowlton, chairman of Hormel,- whose father was a rank and filer for Hormel and Austin for 32 years - claims that not getting concessions would be "tantamount to taking down our plants brick by brick".

SOURCE; "BUSINESS WEEK" OCTOBER 29, 1984

The UFCW members have now been out on strike for approximately 32 weeks. As Hormel moves to hire more non-union workers to replace the strikers, the action has turned from passive picketing to near riot conditions involving police and the strikers. It is an obvious problem where 1500 people out of a town of 23,000 stand to lose their jobs.

IBP also refined the concept of single species kill facilities. Older packing facilities could kill sheep, cows/bulls, fed cattle, etc.. IBP began to concentrate on a single story, one purpose plant for greater efficiency. While IBP did not necessarily invent boxed beef and single species kill plants, the company was able to maximize the usage of these slaughter and ship methods.

Also, with the advent of cattle feedings in the 1950's and 1960's in the midwest corn producing areas and the Texas Panhandle grain producing area, the new slaughterhouse facilities were relocated. The move was made from being near to the specific consumer to being near the cattle producing areas. With the increase in efficiency of the slaughter facilities coupled with being close to large inventories of cattle on feed, the speed of cattle slaughter was increased from several hundred per day in the older facilities to as much as 4,000 to 5,000 per day in the new facilities of IBP, MBPXL, Monfort, etc.

Coupled with the major structural changes in the meat packing industry has been a declining trend of meat

consumption in the United States. The following table shows the trend in beef and chicken consumption per person.

PER CAPITA BEEF/CHICKEN CONSUMPTION

	1976	1984
Beef	94.4 lbs.	78.6 lbs.
Chicken	40.1 lbs.	55.7 lbs.

BASIC DATA - USDA

In summary, this represents a 20% decline in consumption of beef and a 37% increase in consumption of chicken of a per capita basis. The beef industry is aware of this trend but has just begun to identify its competition...

> "Demand for beef is not as strong as it has been in the past. The biggest single reason for this somewhat weaker demand for beef, a recent analysis suggests, is simply the relatively large volume of chicken which is now available and which many consumers have come to eat regularly".

SOURCE: MEAT PROCESSING, JUNE 1984

Prime and choice cuts of meat are the best cuts from a flavor and moisture standpoint. However, health and nutrition research increasingly says that the best tasting meat may not be the best for you. The marbling, which is the little flecks of fat interspersed through the red meat, gives one of the best indications of the quality of the

meat. Prime and choice cuts are laden with this fat. This fat has been linked to heart disease and cancer. Because of this link, the consumer has been looking for alternatives to red meat consumption, such as chicken and fish products. Along with the health concern, boneless poultry meat is substantially less expensive than prime or choice beef. Also, an emphasis has been placed on eating leaner meat.

Grain fed cattle produce the fat cover that means better marbling. Much emphasis has been placed recently on attempting to genetically engineer cattle and alter feeding patterns to produce leaner fed beef. Contrasted with fed cattle, a grass fed cow which is a calf producer is a leaner animal. There is a separate and distinct market for the leaner "utility" animal, the grass fed cow/bull, versus the fed animal. The utility animal more often than not is used in boneless beef products including sausage, beef jerky, grindable meat, round and flank steaks, and some loin cuts.

In 1983, the commercial cattle slaughter in the United States was made up of grain fed steers and heifers - 69%, nonfed steers and heifers - 8% and cows/bulls - 23%. Meatpackers tend to specialize in the slaughter of either fed cattle or nonfed cattle. For example, cow and bull slaughter represented only 0.3% of the 1982 slaughter by major packers including IBP, MBPXL, Spencer and Monfort (Quail, 1986).

Quite obviously, the meat packing industry has had to adjust to intense competition and declining markets for its products. The full cycle of expansion and contraction which was mentioned at the start of the chapter is apparent in todays meatpacking industry. From the 4 or 5 major meatpacking companies which had an iron grip on U.S. meat productions early in this century, grew literally hundreds of competitive, small independent packers. Midland Foods was an example of that growth. However, the expansion has reversed itself dramatically especially in the last 15 years. The contraction era of the cycle has affected plants similar to Midland.

> "As recent mergers and plant closings demonstrate, the meat business is reorganizing along new lines. It appears that only five or six huge meatpackers will survive out of a pack of about 16 major companies and today's largest beef slaughterers will top that list."

SOURCE: WALL STREET JOURNAL DEC. 2, 1985

A two year study commissioned by the American Meat Institute in 1984 listed the problems and opportunities in the red meat industry.

> "Twelve roadblocks in the path of packing companies were listed in that report: low growth projections for red meat consumption; a fragmented market; limited knowledge on the part of packers and processors of markets and customers; narrow management focus and

emphasis; government regulation (to some, the real biggie); bargaining power of buyers; increased competition for shelf space; declining margins; limited markets for exports; overcapacity in the pork sector; the crunch for capital; and weak sales and marketing skills.

SOURCE: MEAT PROCESSING OCTOBER 1984

An examination of the meatpacking industry shows that those companies which are commodity companies, beef slaughterers and shippers, rely very heavily on volume for profits. The table below shows net income after taxes as a percentage of sales.

PERCENT OF TOTAL SALES

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1.0	.9	.7	.8	1.0	1.0	.7	.9	.8	.8

SOURCE; AMI, FINANCIAL REVIEW OF MEAT PACKING INDUSTRY, 1984

Two reasons that the profit margin for meatpackers have remained fairly constant rather than increasing in the face of the savings on slaughter costs noted are as follows... most of the cost savings have been passed on to the beef consumer (beef prices have generally lagged the Consumer Price Index), and the larger grocery store chains are able to inventory more boxed beef due to the longer

shelf life mentioned. These inventory increases help the grocer stabilize red meat supplies from the packer.

Obviously, with net profit on the average less than one percent of total sales, meat packing companies must strive to maintain, and increase if possible, market penetration if they are going to survive financially. Declining red meat consumption makes this a catch-22 situation and has been responsible for the shrinking number of companies in the meat packing industry.

SUMMARY

The slaughterhouse industry has almost completed a full cycle from expansion and contraction in the number of firms in the industry. The first two decades of this country were dominated by four major meatpacking firms. The federal governments' anti-trust powers broke the domination by these four firms into literally hundreds of independent packers serving mostly a local red meat demand. No inroads in slaughter efficiency were made until Iowa Beef Processors began operations in the early 1960's. IBP's rapid growth was fueled by large savings in the cost per head of slaughter which were passed on to consumers, and the implementation of the "boxed beef" concept which made for longer shelf life and shipping distances for red meat. IBP and companies with similar standards were able to obtain much of the red meat market formerly served by many of those local packers.

Coupled with the intense competition within the industry itself, the per capita consumption of beef has decreased by approximately 20% over the last 10 years. Nutrition, health, and medical sources have advised the public to avoid meats with high fat and cholesterol content, thereby driving some of that red meat demand to poultry and fish as alternative main courses.

The consolidation of the meatpacking industry into fewer and therefore larger participants striving for

increased slaughter cost savings, combined with a smaller market for retail beef products, has forced many meatpacking plants to close due to an inability to compete.

CHAPTER 5

MIDLAND FOODS, INC.

Background

The Midland packing plant provides beef slaughtering and processing for Midland Foods, Inc. The packing facility is located at 800 Minnesota Avenue in Billings, Montana. Per a loan proposal to the Montana Economic Development Board, the owners of the facility through the operating company, Midland Foods, Inc., are listed as Ronald M., Cindy K. and Kirk K. Lund; and Donald and Logan DuBeau.

At present, the Midland packing facility is the only major beef slaughter and boning facility in the state of Montana. The maximum annual slaughter capacity of approximately 150,000 head per year would place Midland in the "regional" classification of slaughter facilities. For purposes of comparison, the American Meat Institute has classified meat packing companies under the following sales categories:

> National Packers are those companies with animal sales exceeding $500 million. These companies products are generally distributed nationwide.
>
> Regional Packers are companies with annual sales of $50 million to $500 million. While those companies generally do not distribute their products nationally, many of them have good market coverage in their regions and compete with national packers for some products.

Local Packers are defined as those companies with annual sales less than $50 million. Firms in this category generally distribute their products in the areas immediately adjacent to their plants.

SOURCE: AMI FINANCIAL REVIEW OF THE MEAT PACKING INDUSTRY 1984

At the time of this study, the Midland facility had ceased operations since February of 1985. The chapter on the Midland facility is separated into background, engineering report, historical financials and analysis, projected operations, and summary.

Property, Plant & Equipment

On approaching the plant off Minnesota Ave., in Billings, Montana, the pre-stressed concrete building presented a good appearance. To the north and west sides, there are stock pens and a sheet metal building. On the south is a small creek. On the east side, the plant has old sections of the building and some stored pallets, barrels, etc. There is a home across from the front yard, where the caretaker lives. The front yard is paved with blacktop.

The office area consists of a reception area and four private offices. There is a lavatory in the area. There appears to be enough desks to fill the needs of the plant. There were additional offices in the plant for the FOOD SAFETY AND INSPECTION SERVICE (F.S.I.S.) inspectors, chief engineer and supervisors. There is a Killing & Dressing mens' locker room with 65 lockers and lavatories. The lockers are in poor condition. There also is a lunch room with tables. The lockers, locker room, hallways and surrounding areas will require a substantial amount of work to bring up to acceptable level.

Dressing Floor

F.S.I.S. has approved the slaughter speed for 90 fed cattle or 79 cows and bulls. The cattle are driven into a stunning box with a rotating release door. This stunning

chute is equipped with a Kosher station for koshering cattle. The stunning box is in good condition. The landing area is wide enough for operators to work safely. There are two heavy duty vertical automatic shackle hoists. These are the type capable of hanging heavy animals. The shackle landing distance to floor is 21'8" with an animal retaining wall 3'6" high. The bleeding area is above this wall. The bleeding rail to floor distance is 17'2". These heights are adequate for longer cattle, such as cows and bulls. F.S.I.S. regulations require 16' of clearance.

Schumer stunning tools are used for dispatching animals. Dehorning is performed by a B & D (Best & Donovan) and Kentmaster dehorners. Heads are not skinned manually, except for the larger bulls. The hide is pulled down with a mechanical hide puller.

Further, the hide is removed from hind legs with a conventional knife. The legs are cut off with Jarvis hydraulic hock cutters and front feet are also removed with a hock cutter. The bellies, flanks, inside and outside fels, low back and rumps are skinned out with pneumatic Jarvis dehiders. The pattern is cut on the front forearm with a conventional knife. The tail, back shoulders, neck and head are not skinned. The top portion (loins, rump and tail) are stripped with a "banana bar" with shoulders, neck and head pulled with a down puller. The method described is advanced dressing technology. If there was a side puller it would improve the operation even more.

After heads are cut off, they are washed in a stationary cabinet, and placed on a Buschman type head conveyor where the tongue is removed from head. The head then passes through a Chad head washer. After the Chad washer, the head conveyor moves to an F.S.I.S. inspection station which is elevated. There is room for one inspector. However, this inspection station could be lengthened if the need arose. The head conveyor then elevates over the top of the dressing conveyor onto a variety meats work up room where the heads are boned. There is no mechanical jaw puller. The tongues also are trimmed in this variety meats room. The tongue trimming operation could be done more efficiently if it were trimmed when it's hanging on a hook.

The carcass is conveyed to a moving top slatted viscera conveyor which is a short table. The capacity is two carcasses at the table at a time. There is room for an inspector for inspecting viscera. The operators trimming variety meats work toward the end of viscera table on both sides. If there was need for a higher dressing speed, a "pre-gutting" stand could be installed so an operator could do some of the preliminary evisceration preceding the viscera table. A 2nd inspector could also be stationed on the opposite side of the existing inspector.

There is a Le Fiell self-sterilizing high voltage electro-stimulater preceding the viscera table. If the plant killed cows only, this equipment would not be

required. The electro-stimulater is used to tenderize beef. This piece of equipment is in good condition.

The Brisket saws are the latest model Jarvis hydraulic models, and there are two of these saws. The carcass splitter is also the latest model. It is a Kentmaster bandsaw, with a Kentmaster reciprocating bladesaw for stand-by. The splitters platform is vertical elevating and not side-moving which is more desirable.

After passing over a single dip rail scale, the carcass is conveyed through a carcass washer. The sprays are stationary so a manual wash with a spray is required.

Rail height on dressing floor is 13'6". The conveyors are powered with one motor and a connecting line shaft.

The paunches are emptied and tripe is saved and denuded. The paunches are washed and trimmed on "umbrellas" hung on a "tree" and moved to the denuders (tripe washers). This is obsolete technology. There are six operators doing what can easily be done by three. A retrofit to modern technique would require an outlay of approximately $50,000. However, this amount of money could be saved on labor alone in less than a year, with improved tripe yields.

The variety meats department could also be improved to eliminate one or possibly two operators at 400 cattle per day. The facility would have to install a mechanical jaw puller to improve the operation so better job combinations can be developed.

With some of the latest equipment, the dressing department could be made more efficient. Thirty-nine operators are listed in the K & D and offal room. For 50 cattle per hour, this is a large number of operators. Below we will list areas where savings could be realized:

1. Discontinue the Kosher slaughter. This ties up too many operators doing the actual slaughter and maintaining identity of the carcasses. It also slows down the operation and a high percentage of heads get condemned because of contamination from regurgitated stomach content when the throat is cut.

2. Install a good stunning tool ("The Knocker") so the knocking/shackling operation could be improved.

3. Install a side puller so manual skinning of sides could be reduced which would eliminate one operator.

4. The electro-stimulater will not be required if only cows are dressed.

5. Modernize tripe saving operation and eliminate 3 operators.

6. Improve on the head conveyor so head washing can be improved and labor reduced.

With the above changes, the work force could be rearranged for more efficient operations. Most modern K & D departments dress more than 2 1/2 cattle per man hour. With the right equipment and gang balance, the work performed by the 33 operators should be performed by approximately 22. Also, the dressing speed could be

speeded up if all other factors in the plant could handle it, mainly inedible rendering. With all the unneeded labor, it would be difficult for the plant to be competitive in the market place. If this is to be a viable operation, improvement will be mandatory.

Steam and Power

The boiler room has two Kewanee boilers which appear each to be about 25,000#/hr steam capacity. There are eight ammonia compressors scattered throughout two rooms. They are "old timers" made by Vilter Mfg. Co. and appear to be an approximate connected load of 350 tons of refrigeration. Air is supplied by three Kellogg-American rotary screw compressors driven by 60, 40, & 30 HP motors. This would appear to be adequate to supply compressed air for the plant.

One of the larger Vilter compressors has a cracked water jacket. The other compressor appears to be in fair condition, except for being old. The compressor motors are also in fair condition. For the long term, it is questionable whether the compressors would operate without major expenditures.

Roofs and Floors

For the most part, the floors are in good condition. However, the roofs are another situation. The roofs over the newer building (chill coolers, etc.) are in good condition. In other areas, there is evidence of substantial water leaks in the plant. These areas will have to be repaired before any start-up of the plant could

take place. Some of the other roof sections of the old building that need to be repaired could be deferred for a short time, but the question is whether they would hold up for three to five years. A program would have to be started so there would be a section replaced each year, starting with sections that are in the worst condition.

There were a number of planks on the roof, which made it appear as if repair work had been planned. No physical evidence was seen that there was any structural deterioration where these planks would be needed.

The waste water drainage off the floors is well designed. The only place where clogged drains was noticed was in the condemned room.

Variety Meats Packing

This department had 6 operators. In order to make this department efficient, it would have to be rearranged and a mechanical jaw puller installed. The work should be performed by 4 operators instead of 6. All variety meats are packed hot.

Freezer

If this freezer had pallet racks, it could hold approximately 160,000# or almost 4 truckloads of product. Before any storing or freezing can be done, the ceiling has to be repaired. Approximately 1/4 of the room's ceiling insulation has been broken and fallen to the floor. There is also some deterioration of paint and insulation in other areas of the freezer.

The rehabilitation of the freezer will be important so that variety meats, gland and some of the items off the boning room can be placed in there while shaping up a truck load of meat.

Chill Coolers

The Capacity is 648 carcass in 3 coolers with "walking beams". These coolers were built approximately 10 years ago and are in excellent condition, which includes the walls, ceiling and floors. They are refrigerated with Frich units.

Holding Coolers

These are older coolers with a holding capacity of 320 carcasses. These coolers would require some work on the walls, rail switches, etc.

Boning Room Area Holding

This room can hold 280 carcasses. The total holding capacity for all coolers would be approximately 1248 carcasses.

Beef Boning Room

There is a bandsaw for break-up, with a conveyorized boning table. The set up appears to be adequate to bone out 400 cattle per day. However, if only cows and bulls are to be slaughtered, they could be boned-out "hot".

If hot boning was done, most of the operations could be performed while the carcass is suspended and hanging on the rail. The plant has more than adequate room for developing a good "hot" boning layout. This would preclude the need for the chill cooler for carcasses, etc. These

rooms could be used while shaping up a truck load of meat to the leased freezer at 4147 1st St. South, if this freezer was necessary.

A CO_2 tank and dispensing unit would have to be installed to prepare the hot boneless beef for packing. It is mandatory that meat be chilled promptly to prevent spoilage of the boxed product.

Rendering - Edible

There is no edible rendering. The edible fats off the kill and boning room are rendered through the inedible system. By down grading the fats, it is a revenue loss to the company. However, there would not be justification for expenditures to install an edible system. The price differential between edible and inedible tallow normally is $.02 - $.05 per lbs. Edible tallow yields from cows can vary from practically nothing from emaciated canner cows to 35# from better quality cows. This is the combined fat from K & D and boning.

To install a continuous process edible rendering system would cost approximately $500,000 if a room in the plant was available. A dry rendering system would cost less for the equipment, but would require a larger room which means the total investment could be almost equal.

Rendering - Inedible

The inedible rendering system is a Phandler continuous process system. The capacity is approximately 15,000# per hour which would be the raw material from approximately 55

cattle per hr. off the killing and dressing floor and boning room. This would be adequate capacity if the kill was 400 cattle in an 8 hr. day or 500 in 10 hrs. However, if the speed was increased, some of the raw material would have to be hauled to an outside renderer. There is very little raw material holding capacity so that rendering time could be extended beyond the K & D time.

The plant is equipped with a 20' raw material load-out screw conveyor. However, outside renderers pay a very minimum price for the raw material, so any raw material hauled off the plant is a revenue loss to the company.

The inedible system consists of screw conveyors, P.B. 15 prebreakers, two Wieler grinders, a slurry tank for acid injection, pumps, heater, 2 decanters, 5 Titan separators, 2 driers, cray blowing system and storage bins (outside tanks).

The inedible material passes from the K & D and boning room to screw conveyors, prebreaker, Wieler grinder, slurry tank, and then pumped to the decanters. The decanters separate the solids from the liquid phase (water & tallow). The solids go through a direct fired rotary dryer, on to storage via a blower system. The liquid phase goes to the separators where water, fines and tallow are separated. The tallow is pumped to storage and water/fines are pumped to an evaporation lagoon outside of the plant. The liquid phase is extremely high in B.O.D. so it must be kept out of the waste water.

The physical condition of the inedible rendering system is not good. One cannot tell the condition of the inside of decanters and separators. They might be in good condition, but on the other hand they could be deteriorated. To repair one of these machines would cost $13,000 to $20,000. These are normal repair charges and with 7 machines, the repair cost could be sizable. The P.B. 15 prebreaker shows wear also, as well as the conveyors. The pumps will need to be repaired and miscellaneous repair work finished. The dryers appear to be in fair condition, but these machines are also high maintenance items, so one can anticipate some expense in getting these dryers started.

The "condemned" room and the corresponding general area is in poor condition. They would require a substantial amount of time and money to get into acceptable condition.

In general, the inedible rendering department would not be an asset to the plant. The technology used is not widely used in the packing/rendering industry. It is labor intensive and a high maintenance system. Eight operators have been used in the past in the rendering department. This includes the treatment of waste water and for saving fetal blood. With the volume in question, and if the rendering used modern equipment which was properly laid out, the work should be handled by no more than 4 operators. This department could also be a draw-back toward a possible speed up of the dressing department.

Fetal blood saving should be contracted out. The plant could save the cost of labor and still get some revenue and not be burdened with handling the finished product. Contractors will come on-site, save the blood and handle all transportation. They pay on a basis of the amount of fetal blood saved. When killing cows, a high number of slunks and therefore fetal blood can be expected.

Blood Drying

There is no separate blood drying system. The blood is blended with the raw material and processed through the inedible rendering system. This practice could result in having the dry rendered tankage sold as digestic tankage or some lower quality tankage. Most states have trade rules that preclude putting large quantities of blood in the dry rendered tankage (D.R.T.) or meat and bone meal. The only dried blood which is allowed in dry rendered tankage/meat and bone meal is the quantity that accidentally gets in the product through good factory practices. This is again, an expensive factor in lost revenue. Dried blood normally sells for approximately $50.00 per ton more than D.R.T. Further, if the D.R.T. is mixed with blood, it also could be downgraded another $10.00 per ton. If there is no conflict with the law in Montana, the added value of the blood would be approximately $20,000/year in revenue. However, the changes could not be justified from the dollar cost investment.

To solve the problem of mixing the blood with D.R.T., a coagulating system would have to be installed, and then a process of the blood moving separately through the decanters/dryers after the inedible rendering was finished. This would still be rather costly because it would require a coagulating system, raw blood holding tank and a dried blood holding bin. The equipment mentioned would cost approximately $80,000.

Waste Water

Waste water is pretreated in the plant before discharging it to the city sewage system.

The waste water gravitates to a wet pit in a room adjacent to the inedible rendering department. A lift pump pumps the water to a floatation cell (without skimmers) where aluminum sulphate and polymers are injected into the cell with water for good mixing. From the cell, the overflowing water gravitates to a catch basin with an automatic skimmer where grease and floatable material is removed. The water goes to the city sewer system and skimmings to the inedible rendering.

The waste water system is in fair condition and is minimal in size. It was stated that the effluent from the plant met domestic sewage strength parameters. These are normally 300 Mg/L for B.O.D. (Biochemical Oxygen Demand) S.S. (Suspended Solids) and F.O.G. (Fat, Oil and Grease). For a slaughter operation to meet those parameters is very difficult. Normally, beef slaughter operations discharged

water has approximately 1000/1500 Mg./L B.O.D., 750/1000 Mg/L S.S. and 150/300 Mg/L F.O.G..

Sanitary sewers (toilets) are connected directly to the city sewer system. This sewage does not mix with the plant waste water in the pretreatment system.

One factor that contributes to the lower B.O.D. is the liquid phase from the inedible systems is directed to the lagoon on the plant property. The lagoon used for this purpose is getting loaded to capacity and should be dredged. It is possible that the plant could be started without dredging, but it would have to be done within a 1-2 year timeframe. Dredging the lagoon will be costly. The lagoon has dried out so it is not possible to observe the sludge for capacity. It would cost in the area of $75,000 - $100,000 to dredge and haul the sludge away.

Paunch Manure

Paunch manure is mixed with water off the killfloor and pumped over a hydrasieve where the water is separated from the paunch content. The water phase is pretreated and the paunch content is hauled to the field next to the lagoon. The dumping of paunch on a field is closely regulated in most areas. A question can be made as to whether the E.P.A. or state regulatory bodies would permit this practice very long. It is the opinion of the engineers that some other arrangement would have to be made for the disposition of the paunch manure, which would add to the operating cost of the facility.

Welfare Facilities

The locker rooms have lockers, showers, toilets, etc. to accommodate approximately 130 employers.

Laundry

There is a laundry room with two washers and two dryers. These would be adequate to wash and dry the clothes of the employees and F.S.I.S. inspectors.

Hide Curing

Hides are not cured on the plant. This is an important by-product which can contribute substantially to revenue. There is no hide cellar, therefore this work must be done by someone with curing facilities on a custom cure basis. Midland would own the hides, but a contractor would cure them and then Midland would sell cured hides to tanners.

General Comments

With the exception of the chill coolers, the plant is fairly old. Because of this, a substantial amount of work and money would have to be spent to bring it up to a level to be acceptable by the F.S.I.S. inspectors. The dressing floor could be improved with some expenditures so that the speed efficiency of slaughter could be increased substantially. The boning room could also be made efficient if hot boning was introduced. Even with the existing boning layout, it could be improved if some of the work was done preceding the table (i.e. remove clods, shank meat, etc.) Also, the carcass forequarters could be

separated, and the hindquarters should be boned while suspended.

The inedible rendering, refrigeration compressors and roofs on the old sections of the plant would require a substantial amount of work and money, especially for the longer term. Employee welfare facilities, the freezer, and the waste water treatment will also be in need of repair and/or expense to bring up to an acceptable level.

The active OSHA file in Billings lists a number of safety violations with fines assessed approximating $3,000. These fines were assessed following an inspection in early 1985. Some of the violations noted were repeats from an earlier inspection done in 1983. It would be necessary to correct these problems in the plant for a minimal expense prior to an attempted reopening.

In order for the plant to function efficiently and contribute to the total profit picture of the plant, a top notch operating team would have to be assembled. These would include starting with a top-line manager, superintendent, chief engineer, and dressing floor, boning and rendering supervisors. The age of the plant and equipment would absolutely require these people to improve the slaughter efficiency.

MIDLAND PACKING CO.

Below is an estimate of what it would cost to improve and/or correct deficiencies in the plant. This list might not include all factors needing correction and in some instances overstate or understate costs. There are too many variable factors involved in making estimates. These will be stated as "Ball Park" figures:

Clean up and repair offices, welfare room and lockers	$ 10,000.00
Repair saws, dehiders, hockcutters, conveyors, etc.	10,000.00
Install side puller	60,000.00
Install tripe washing conveyor & chad washer	50,000.00
Rearrange head conveyor	5,000.00
Rearrange variety meats packing cooler & install jaw puller	9,000.00
Install stunning tools (Knocker)	2,000.00
Replace splitters platform	4,000.00
Repair ammonia compressor	10,000.00
Misc. Repairs to engine room equipment - pumps, compressors, etc.	20,000.00
Repair roof to correct leaks - Min. to get by (Long term an additional $90,000.00)	10,000.00
Freezer repairs	5,000.00
Hold coolers - rails, walls, etc.	2,000.00
Boning Room - Convert to hot boning or improve existing layout	100,000.00
Inedible Rendering (repair centrifuges, dryers, conveyors, pumps, prebreaker, etc.	50,000.00
Waste Water - Repair pumps, etc.	1,000.00
Material handling equipment, fork lifts, walk along tractors	25,000.00
Make corrections on F.S.I.S. inspection list (other than what is listed here).	5,000.00
Contingencies- Unforeseen	40,000.00
TOTAL	$418,000.00

Future Work Required

Dredging sludge from waste water evaporation	$100,000.00
Repair all roofs	90,000.00
TOTAL	$190,000.00

HISTORICAL FINANCIALS AND ANALYSIS

As has been mentioned previously in this study, the Midland packing facility has experienced numerous closing and reopening moves over at least the last 5 years. A summary of the operating periods for the 1981-1985 period is listed below:

Midland ran on a fiscal year from June 1 to May 31.

In April, 1982 Midland suspended operations.

It was closed from April, 1982 to August, 1982 when Midland entered into a lease agreement with a separate company.

This company discontinued operations in February, 1983.

In May, 1983 the same company entered into a new lease.

This lease was terminated in March 1984.

In April, 1984 until February, 1985 the facility operated as Midland again.

It again discontinued operations in February, 1985.

If we related these events to the fiscal year the following will summarize the transition of operations;

The financial statements for the year ended May, 1982 only contain 11 months.

The statements for the year ended May, 1983 only contain the interim period of the leases which is the one ended February, 1983 and the one that started May, 1983.

The statements for the year ended May, 1984 only contain less than two months operations, from the time the lease was terminated in April 1984 until May 31, 1984.

The statements for the year ended May 1985 are only a compilation, the lowest form of service provided by a CPA firm, and are for the period June 1, 1984 through February 1985, a period of nine months.

Because of the intermittent facility operations over the above time period, the historical financials of Midland do not provide any conclusive evidence of past or future consistent profitability. An examination of the 1980 through 1985 fiscal years show the following operating results:

STATEMENT OF OPERATIONS OF THE YEAR ENDED MAY 31,

Year	Sales	Profit/(Loss) Before Taxes
1980	$76,030,457	$ 274,594
1981	$77,554,164	$ 145,513
1982	$54,578,385	$ (580,255)
1983	$ 366,122	$ (809,601)
1984	$ 940,291	$ 100,937
1985	$28,977,143	$ (2,219,084) unaudited

Profit after taxes was recorded as:

1980	$162,994
1981	$116,313
1984	$101,555

The company records deferred income taxes resulting from timing differences between financial and income tax reporting. The 1984 period contained a provision for income taxes refundable of $618 (added to profit before taxes).

A more detailed Statement of Operations for the years 1980-1985 is listed on the following page.

MIDLAND FOODS, INC.
Statement of Income (loss)
For the years ending May 31,

	1980	1981	1982	1983	1984	1985*
Sales	$76,030,457	$77,554,164	$54,578,385	$ 366,122	$ 940,291	$28,977,143
Cost of Goods Sold	(69,554,300)	(70,435,826)	(48,870,262)	(432,144)	(621,674)	(26,834,960)
Gross Profit	6,476,157	7,118,338	5,708,123	(66,022)	318,617	2,142,183
Other Revenue	-0-	-0-	-0-	439,594	485,607	235,247
Operating Expenses	(5,829,750)	(6,626,072)	(5,942,802)	(776,828)	(856,192)	(4,280,085)
Operating Income (loss)	646,407	492,266	(234,679)	(403,256)	(51,968)	(1,904,655)
Non operating Income (Expense)						
Interest Expense	(394,079)	(368,246)	(411,293)	(53,171)	(39,691)	(312,233)
Other	22,266	21,493	65,717	(353,174)	192,596	(2,196)
Income (loss) Before Income Taxes	274,594	145,513	(580,255)	(809,601)	100,937	2,219,084
Federal and State Income Taxes (Credits)	(111,600)	(29,200)	308,600	166,880	618	--
Net Income (Loss)	$ 162,994	$ 116,313	$ (271,655)	$(642,721)	$101,553	$(2,219,084)

* Unaudited

The 1980 and 1981 fiscal periods provided the most profitable periods in the last 6 fiscal years. However, even those periods showed a low net income as a percentage of total sales. In 1980 that percentage return was .21% and in 1981 that percentage return was .15%. Contrast these returns with the average return of net income as a percentage of sales for the regional meat packers as listed by the AMI which was 5 to 6 times higher for 37 regional packers participating in the AMI's 1984 Financial Review of the Meatpacking Industry. For 1983 and 1984, the average net income as a percentage of sales for regional packers was 1.17%.

It appears that for the fiscal periods of 1982 through 1985, the losses from operations got exceedingly worse. The one exception in 1984 is not valid because of the limited operations in that period. The Notes to Financial Statements for fiscal year 1984 carried the following comment:

> Because the company only operated its packing and processing plant a short period 1 less than 2 months for FYE 5/31/84, and because a majority of its inventory is valued at net realizable value, the gross profit percentage reflected on the statements of income was not expected to be realized in future periods.

As noted earlier, the packing facility was operated only 8 1/2 months of fiscal year 1985. However, the last period of operations produced what appears to be the most severe losses of the last 4 years. It is difficult to

determine the accuracy of this loss because the 1985 fiscal period financial statements were not audited, but rather compiled. A compilation by accountants is made mostly from management's representations and not from an intensive examination by the independent accountant of the company's accounting principles. Also, there appear to be substantial inter-company transactions which may or may not reflect in the large loss for fiscal 1985.

To further illustrate the declining financial position of Midland over the past 5 years, a summary of the Statements of Changes in Financial Position for fiscal years 1980-1985 is listed below.

CHANGES IN FINANCIAL POSITION

Year	Increase (Decrease) in Working Capital
1980	$ 185,000
1981	$ (176,000)
1982	$ (585,000)
1983	$ (847,000)
1984	$ 522,000
1985	$(2,220,000)

Again, 1984 is not a representative year for financial performance per the Note to Financial Statements on the preceding page.

Working capital is defined as current assets less current liabilities or net current assets. In an industry such as meatpacking which is highly cash intensive, the need to conserve and expand working capital, if possible,

is of paramount importance. Once again, excluding 1984 for the reason of short operating time that year, the decline in working capital over this listed period of 1980-1985 clearly shows the declining financial position of Midland. It was during this 6 year period that Midland lost a substantial account which was the Buttrey Food Store meat sales to Iowa Beef Processors.

To fully understand the current financial position of Midland Foods Inc., a balance sheet showing the current capitalization of the company is listed on the next page. This information has been created from examination of the historical financial position statements of Midland, from conversations with current lienholders against the company, and conversations with personnel of Midland. The Project Manager does not attest to the accuracy of this statement and no audit has been performed. Rather, given the unknowns as listed in the past several pages of the study, this balance sheet is really a "best guess" as to the input.

This balance sheet probably represents the "worst case" scenario for Midland. To reiterate, many of the entries are subjective. The two items for First Interstate Bank are included solely to illustrate a potential liability.

The $300,000 short term debt and the $750,000 long term debt due to First Interstate Bank of Denver was arrived at from conversations with bank officials. First Interstate had provided the working capitalization for

MIDLAND FOODS, INC.

Balance Sheet March 31, 1986
(Unaudited)

Assets	
Current Assets	$ 0
Land	5,310
Buildings & Improvements	1,145,944
Machinery & Equipment	1,821,350
Transportation Equipment	87,440
Total Property & Equipment	3,060,044
Less: Accumulated Depreciation	2,273,873
NET PROPERTY & EQUIPMENT	$ 786,171
Liabilities & Stockholders Equity	
Current Liabilities	
Trade Accounts Payable	$ 340,000
Judgement Payable	10,000
Accrued Expenses	194,000
Utilities Payable	15,000
Property Taxes Payable	25,000
Due to Related Parties	305,000
IDR Bond Payable (Short-term)	$ 185,000
Accrued IDR Bond Interest Due	30,000
Notes Payable to Stockholders (S-T)	61,000
Accrued Note Payable Interest Due	10,000
Due to First Interstate (S-T)	300,000
Leases Payable (Non Cancelable)	130,000
Consulting Agreement Payable (S-T)	70,000
Total Current Liabilities	$1,675,000
Long Term Liabilities	
IDR Bond Payable (Long-term)	$ 65,000
Accrued IDR Bond Interest Due	20,000
Notes Payable to Stockholders (L-T)	64,000
Due To First Interstate (L-T)	750,000
Total Long-Term Liabilities	$ 881,000
TOTAL LIABILITIES	$2,556,000
Stockholders Equity	
Convertible Class A Common Stock	$ 250,000
Common Stock	314,882
Retained Earnings (Deficit)	($2,334,711)
Total Stockholders Equity	(1,769,829)
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	786,171

Midland for cattle purchases in the 1984-1985 fiscal periods. At the time of the study, First Interstate represented that there was an approximate short-fall in that loan of $1,300,000. Per the loan agreement, the collateral for the loan was the cattle and red meat inventories and the accounts receivable due to Midland. Obviously, there is no inventory or receivables. However, First Interstate feels that a personal guarantee from Ron Lund on the loan may be transferable to the assets of Midland Foods, Inc. A settlement has been proposed by the bank which is essentially a $300,000 payment due immediately and a $750,000 note due in 5 years. This is shown on the balance sheet. Midland has countered the bank's proposal. However, the details of this counter proposal is not known and this study will not speculate on the outcome of the negotiations between Midland and First Interstate.

At the time that Midland was last operating, a collateral control agent was responsible for monitoring the loan balance and obtaining the account receivable payments for Midland. The use of this agent is common whereby an independent entity will provide a list of collateral securing an operating loan such as the one from First Interstate, and make certain that payments received are used to retire outstanding loan balance. Because of the substantial operating loss incurred by Midland in fiscal year 1985 of approximately $2,200,000, and of the

corresponding loan shortfall of approximately $1,300,000 due to First Interstate, an inquiry was made as to the apparent non-effectiveness of the collateral control agent to provide security to either Midland or First Interstate. It was represented by First Interstate that subsequent to Midland ceasing operations, a claim was filed against the collateral control agent by First Interstate. However, the agent has apparently filed for reorganization under the Federal bankruptcy laws. Therefore, any potential recovery from the agent by First Interstate or Midland is unknown.

In summary, the declining financial condition of Midland as represented by the Statements of Income (loss) and the Statements of Changes in Financial Position for the fiscal years 1980-1985, represent an example of the restructuring in the meatpacking industry as noted in Chapter 4. Unfortunately, the past operating results can have a negative effect on an attempt to reopen the Midland packing facility under current ownership structure.

PROJECTED OPERATIONS

This chapter deals with a hypothetical operation of the Midland packing facility. An integral part of this chapter is the Projected Financial Statements found in Appendix A1-A2. The observations in this chapter and the projections in the appendixes are generated from all aspects of this study including the engineering report, historical operating results, limiting operating factors such as live animal availability, personal interviews with owners/managers of the Midland facility, etc.

As is commonly pointed out... "computers can be made to say anything". The key to making an "educated guess" in a proforma or projected financial statement is determining the variables that provide the input for that statement. In every model and projected financial statement in the Appendix, the variables are only assumptions that may reflect the real world. The variables are not guarantees of financial performance.

The models that were developed use the following variables:

VARIABLE	"BASE CASE"
Cow/Bull cost per 100 lb.	$33.00
Fed Cattle cost per 100 lb.	$55.00
Cow/Bull Sales per lb.	$ 1.05
Fed Cattle Sales per lb.	$ 1.40
Price for Hides (Green)	$20.00

Percentage Good Hides	85%
Offal Sales per Head	$12.00
Cow/Bull Carcass Yield	48.5%
Fed Cattle Carcass Yield	60%
Cow/Bull Boning Yield	72%
Fed Cow Boning Yield	75%
Cow/Bull Kill/Month	7,600
Fed Cattle Kill/Month	400
Cow/Bull Live Weight	1,000 lb.
Fed Cattle Live Weight	1,200 lb.
Brand Inspection per Head	$ .50
Box/Container/Supplies per Head	$ 4.25
Ending Month Inventory per Head	800
Freight Out per lb.	$ .015
Hours Worked/Month	174
Payroll Tax Benefit	25%
Hourly Wage	$ 6.75
Freight In per Head	$ 5.00
% Bad Debts / Gross Sales	1%
People on Kill Floor	38
People Boning/Box/Shipping	40
Management	5
Number of Clerks	4
People - Miscellaneous	5

These variables create a "Base case" income statement for Midland which is Appendix A1. In this particular model, for an operating year of August, 1986 through July

31, 1987, the Midland facility incurs approximately a $100,000 loss for the period. Under the current conditions, this would present almost a "best case" scenario. It is the Project Manager's opinion that the following conditions would make it difficult for Midland to operate in a profitable mode:

1. The "base case" model shows approximately 360 head of cows/bulls and 20 head of fed cattle being slaughtered daily. Obtaining the fed cattle would be no problem. However, as the comments on live animal supply in Chapter 7 demonstrate, it would be difficult to obtain the 90,000 cows/bulls needed annually for slaughter on a consistent basis. These cows/bulls would have to be of a sufficient quality for the live weight price paid. As Chapter 7 points out, exceeding a certain percentage of obtainable culled cows and bulls would require either declining carcass and boning yields for lesser quality animals and/or higher live weight prices than under normal auction market conditions.

2. Other than the labor cost, the highest expense in the operating statement is the interest cost expense of approximately $700,000 on an annual basis. Under the model assumptions, a total capital need to begin operations at Midland is in excess of $4,750,000. Assuming that the company will pay 12% on the loans for renovation and the loans for repayment of current assets and 11% for the working capital loans to purchase livestock and cover one month's overhead, the interest cost on an annual basis is prohibitive. Obviously, a capital need of $4,750,000 under the current conditions is unfeasible. This information is found in the Cash Flow Statement for Midland in appendix A-2.

3. The engineers have determined that total staffing for a 400 head per day kill should be approximately 89 people. This is compared to the staffing that Midland operated under in the past of approximately 115 people. In other words, labor efficiency has been increased in our model by almost 20%. Therefore, this model assumes that a "top notch" full management team exists at Midland including a plant manager, K & D and fabricating room supervisors, cattle buyers, chief financial officer, and etc. Under current conditions, the management that would increase this labor efficiency has not been identified for the Project Manager or subcontractors or by current ownership/management of Midland.

The Midland facility probably represents the last opportunity for Montana to have a large beef packing plant (up to 100,000 head of annual kill). As has been noted throughout the study, the current market conditions for the red meat packing industry have made the closing of plants such as Midland commonplace throughout the United States. Based upon these conditions, and coupled with the financial and physical condition of the meat packing facility, it is the Project Manager's belief that it is not financially feasible to reopen the Midland Foods, Inc. meatpacking facility.

SUMMARY

For the reasons listed below it is not financially feasible to reopen the Midland facility:

1. The financial condition of Midland is extremely poor. From the balance sheet, the negative net worth of the company is approximately $1,800,000. Current assets are zero with current liabilities being approximately $1,700,000.

2. Several legal clouds hang over Midland at present including the status of the IDR band which is in default. The potential claim by First Interstate Bank of Denver, the accrued expenses currently due including taxes, utilities, and labor expenses.

3. It is assumed currently that the fed cattle market beyond an immediate hotel, restaurant, institution (HRI) trade or immediate retail consumer trade is nonexistent. The fluctuating cow/bull supply of slaughter animals makes it not possible to operate the facility at or near capacity on a consistent basis.

4. The age and physical condition of the facility make it unlikely that the kill efficiency levels of newer slaughter facilities in regards to labor and overhead will allow Midland to be cost effective in the competitive red meat commodity industry.

5. Under current ownership, the need for capital to reopen the plant approaches $2,100,000 in term loans for renovation and debt retirement and $2,650,000 in operating loans for working capital. It would be difficult to obtain such financing.

6. There is an absolute need for a full management team of excellent capabilities in the meat packing business. This potential management team has not been identified at Midland.

CHAPTER 6

YELLOWSTONE BEEF PROCESSORS

Background

The Yellowstone Beef Processors is a beef slaughtering facility located on the Frontage Road between Billings and Laurel, Montana. The owner of the facility has been represented as Henry Weschenfelder.

The maximum annual slaughter capacity assuming the kill and dress floor layout only is approximately 40,000 head per year. This places YBP in the "local" classification of slaughter facilities per the American Meat Institute.

At the time of this study, the YBP facility had ceased operations it is believed since late 1984. The chapter on YBP is separated into an engineering report, historical financial analysis, projected operations, limiting factors, and a summary.

The plant is on 12 acres of land and presents a neat appearance. The cinder block building was built in 1978. With the exception of tall weeds around the plant, it appears to have been well maintained on the outside. The plant is not fenced in.

Main Office

The main office is more than adequate in regards to space and office furniture. There is a reception area, controller's office and manager's office. Additionally, in the same area on the 2nd floor, there is an F.S.I.S. office, women's locker room, men's locker room with 20 lockers and an employees' lunch room. Access from the office to the plant is gained through access to stairs that lead to the kill and dress department. The manager's office has a window with a view of the K & D operation.

Kill & Dress Dept.

This evaluation starts at the front and goes through the K & D process. Cattle are driven into a one animal stall. This stall has a revolving door so that the animal rolls onto the shackle landing after being dispatched. The operator uses a Schumer stunning tool powered with a cartridge power load (the stunning tool was not seen).

From the shackle landing, the stunned animal is raised to the bleeding rail with a conventional shackle hoist

which is not a heavy duty hoist.

The shackle landing also is not "beefed-up" to handle heavy animals. If heavy bulls were to be dressed, the hoist and landing bleeding rails are too light. These would have to be reinforced.

The hide is removed with Jarvis dehiders and a "home-made" down puller. Hide is pulled down and under two rollers. The hide is stuffed off the heads on smaller animals. The animal would have to be skinned manually due to lack of rail height on longer animals such as bulls. The rail is 12 feet above the floor at the stripper. Here also, the rail would have to be reinforced if larger animals were dressed.

Eviscirating is done with viscera being put into a viscera truck when presented for inspection. After F.S.I.S. inspection, viscera is dropped into a dumpster, through an outlet on the floor. The dumpster is in the basement where it is hauled away by an outside renderer.

Raw blood gravitates from the bleeding pit to a tank in the basement where it is also hauled away. It was stated by YBP management that at times the raw blood was spread on the field behind the plant which is a highly suspect process.

The carcass is split with a Jarvis bandsaw, which is an older model. The bandsaws have been improved since this model was introduced. The washing of carcass is done manually with hand sprays. This method requires more labor, but for a slow operation such as YBP's, the carcass

can be washed with approximately 10% of the water that a mechanical washer would require. The heads also are washed manually. The hind legs are removed with a Jarvis hock cutter and front feet are cut off manually with a knife.

The walls, ceiling, floors and equipment in the department are in good condition. If cattle were dressed within the weight/length limits of the various stress areas, there should be no problem dressing 200 cattle per day without any major changes other than adding additional operators. However, the capacity for waste water would be a problem. That will be addressed as well as refrigeration capacity further in the chapter.

Paunch content is left in the paunches when shipped to an outside renderer which is costly for a renderer. For this reason, very few renderers would accept unemptied paunches. The renderer would not pay much for the raw material, resulting in a loss of revenue to the plant.

The industry has discontinued clothing carcasses, so the area which had been devoted for this operation could be used for other purposes.

Pneumatic dehiders are old Jarvis tools which are outdated. They still can do the job, but at a much slower speed. Also, maintenance is more costly on this dehider than on the newer models.

The layout of the equipment in the department would enable the operators to keep the floors clean during operations with a squeegee and shovel and water hose to

keep contaminants out of the waste water stream. This is to reduce the blood, meat scraps, etc., in the waste water which are extremely high in B.O.D.

To improve the operation, the facility could install a "home-made" "banana bar" to assist in hide removing, similar to what is installed at Midland Packing. This could be installed at the same locations as the down puller. This would eliminate the knife work on back, rump and tail. Also the head wash cabinet could be relocated for better work combinations to improve efficiency.

Chill Coolers

The coolers are refrigerated with Freon. There are three large refrigeration units and 2 small ones. These appear to be capable of chilling 100 fat cattle per day. On canner/cutter type animal this could increase to 120 per day. Rail space is adequate for 120 cattle with a 30" basis per carcass.

With the discontinuance of clothing, it would be mandatory that chill sprays be installed to reduce shrink. Shrink can be reduced by 3 - 5# per carcass. Additionally, without clothes, the carcass temperature will be 3-4 degrees lower with the same refrigeration. To illustrate this need, 5# per carcass of shrink X 120 carcasses X 250 days = 150,000# X 1.00 per lb. = $150,000 in lost revenues. However, for that size cooler, the spray system, if installed correctly, would cost in the area of $30,000. If hot boning is done, the spray would not be needed.

Condition of the cooler and rails is excellent. There

was no evidence of rust or other damage. There are storage racks along the walls which would have to be removed especially if a chill spray was installed. (Stored boxes would become water-soaked).

Boning/Fabrication

This room is also in good condition. There is one boning line with 10 operator stations. The carcasses are separated with a bandsaw with cuts going to operators on a Sandvik stainless steel conveyer belt. Bones are conveyed to the outside bone dumpster via a belt conveyer above the boning table. This conveyer is too high which reduces operator efficiency.

In order to speed up the operation (if plant continues to bone chilled carcasses) some of the work could be done away from the boning table (i.e. pulling clods and paddle bone, also roundouts could be boned on the rail while hanging). There is adequate room for these operations to be performed as stated.

The boned out cuts pass to a model 8200 Cry-O-Vac machine and shrink tunnel. If the volume is increased, a second 8200 would have to be installed. There are many used machines available, so one could be purchased at a reasonable cost.

The storage for the boxed product is limited. This could be a draw-back for future expansion or speed-up of the operation.

Processing Room

This is a ground beef layout capable of processing approximately 5,000# of ground beef a day. Chubs are manually filled with a stuffing horn off the grinder and are sealed with a tipper-tie machine.

Some portion of cutting was also done in this room. There is a boning table with six stations.

Freezer

This room is approximately 30' X 21' with no pallet racks and refrigerated with freon. Without racks, it would be possible to store approximately 50,000# of palletized meat boxes.

Stock Pens

There is one unloading chute, with a good rough floor surfacing to prevent animal slippage. Pens have room for approximately 100 head of cattle. The pens are made of lumber and in good condition. There are no bruise causing projections, sharp corners or nails.

The live weight scale is in bad condition and poorly placed in the livestock flow pattern. Because of this, it has not been used. The plant has been using weights taken at the feed lots and auction barns which is a questionable practice. To be made operable, the scale should be relocated so it would fit in with the traffic flow of the livestock.

Refrigeration

Hot boning is being contemplated. If a slaughter

beyond 100 head a day is planned, a study needs to be made to determine if there is adequate freezer refrigeration capacity to properly chill the meat which is put into boxes in "hot" condition after purging with CO_2.

Waste Water

With manual carcass and head washing the water usage per carcass would be substantially lower than with automatic carcass washers. Expect usage of water to be approximately 200/250 gallons per head slaughtered which includes clean up. For a 100 head slaughter per day, the water usage would be approximately 25,000 gallons. Also, if a good in-house clean up program is followed, the B.O.D. and suspended solids can be reduced.

The waste water treatment system consists of an anaerobic tank and a poly-lined lagoon, which is approximately 1 acre in size. After treating, the water is used to spray irrigate. Excess B.O.D. would make the water unusable for irrigation. Normally the B.O.D. has to be below 50 Mg/L before it can be used for irrigation.

The waste water treatment appears inadequate for the projected slaughter speeds. For future expansion, a 2nd lagoon could be built on the plant premises.

Boiler Room and Mechanical

The plant has a small boiler which supplies heat and hot water to the plant. F.S.I.S. requires that 180 degree water be available during operations to sanitize knives, saws, etc. The boiler appears to be adequate at the low kill rate. There can be water temperature problems if an

operator used a clean-up hose for an extended period of time. However, this can be handled if operator is properly instructed on how to use the water prudently.

Air supply should be adequate for the pneumatic dehiders. Approximately, 100 CFM would be required for the dehider. In addition to the dehiders, there are several other pieces of equipment that use minimal amount of air. The plant has a Kellogg-American model W127 - rotary screw compressor. A Culligan water softener is used for softening water.

There are two work benches for mechanics, one on the 1st floor and one in the basement. There are practically no tools, other than vices and small hand tools. The sharpener for the Jarvis dehiders was not seen. This is an important piece of equipment which will be required.

Hides

Hides are hauled to a building across the highway (approximately 1/2 mile) and salt-packed cured.

Miscellaneous

The plant has facilities to wash employees' clothes including two washers (home size) and one dryer.

An inventory of beef trolleys was not taken, but it appears the plant has approximately 500 heavy duty trolleys.

Before the plant could start operations, most of the employees' safety equipment, hand knives, etc., would have to be purchased and be available to the K & D departments.

YELLOWSTONE BEEF PROCESSORS

The plant is basically in good condition. There are several items that need to be corrected before any start-up could take place.

1.	Repair roof over R & D and employee locker room.	$ 5,000
2.	Repair damage in locker room caused by roof leak.	500
3.	Clean up and miscellaneous repairs.	1,000
4.	Cut and remove weeds - clean up outside.	500
5.	Check boiler, service refrigeration units, repack pumps, check and minor repairs to all equipment	1,000
6.	Install chill spray system. (This would be unnecessary if carcasses are boned hot).	25,000
7.	Replace missing dehiders, misc. tools, knives, etc.	10,000
8.	Unforeseen contingencies	5,000
	Minimum - Total	$48,000

For Future Improvements

1.	Could install "banana bar" same as Midland Packing has. Could be fabricated locally. Installed at location of down puller. This would eliminate backing in loin area, rumping & tail pulling. Cost approximately for hoist and banana bar.	$ 5,000
2.	Relocate head wash cabinet & head boning table.	500
3.	Make misc. changes to improve efficiency of operation (i.e. pneumatic carcass pushers, install pneumatic front foot cutter, etc.	5,000
		$10,500

Limiting Factors For Increasing Volume

1. If "hot" boning is done, would there be adequate freezer capacity to handle the load? A complete study of the refrigeration capability would have to be made before hot boning was commenced.
2. Hot water. If the speed would be increased, which it could be, there could be a problem with monitoring 180 degrees operating water.

3. Waste water treatment appears to be inadequate for 100-125 cattle per day. Before the speed is increased this must be closely studied.
4. Refrigeration is limited. If volume is increased, this could be inadequate (if no hot boning). The plant could convert to ammonia, which is also costly.

Other

Need to consider saving the following to improve gross income:
1. Pancrease glands
2. Beef tripe, scalded and honeycomb.
3. Manudo feet. This is an ethnic item which is seasonal.

HISTORICAL FINANCIALS & ANALYSIS

During the course of this study, the Project Manager and the Subcontractors were unable to obtain any written historical financial information from the current or past owners/operators of Yellowstone Beef Processors. It is important to understand, because the YBP facility is privately owned, there was no legal obligation on the part of those owners/operators to provide such information for the study.

Due to the very sporadic operating history of the facility since its construction in 1978, it is questionable as to whether historical financial information would be of significant use. As near as can be determined, the facility has operated less than three years since construction, with the most recent operations being in 1984.

It was orally represented by Mr. Weschenfelder that the facility had a current debt of approximately $350,000. Terms or maturity on this debt is unknown. This debt is assumed to be secured by the property, plant and equipment of YBP and/or personally guaranteed Mr. Weschenfelder.

It was also discovered that a portion of the original principal of a Yellowstone County, Montana Industrial Development Revenue Bond Issue for the K-K Ranch Meat Products was currently outstanding. This IDR Bond Issue is secured by a mortgage on the real estate and equipment of

the meatpacking facility which is currently known as Yellowstone Beef Processors. Further, Horace B. Koessler, Ted Keating, Eleanor Keating, James H. Koessler and Horton B. Koessler have jointly and severally guaranteed the payment of the principal and interest on the Bonds.

The bond isssue originally dated 12/1/77 was for $1 million. The following maturity schedule shows the remaining outstanding bonds and coupon interest rates.

Amount	Maturity	Coupon
$110,000	12-1-86	8%
$120,000	12-1-87	8%
$130,000	12-1-88	8%
$140,000	12-1-89	8%

It was represented by Horton Koessler that Mr. Weschenfelder has not assumed responsibility for repayment on this IDR issue. Principal and interest payments have been made over the past several years from the assets of the personal guarantors, including Horace Koessler in particular.

The assets of the personal guarantors may be sufficient to continue to provide timely principal reduction and interest payments in the future. Nevertheless, the collateral for the IDR issue includes the meatpacking facility. A future default on the IDR issue may require the Bond trustee to take possesion of the personal guarantors' assets including the packing facility. Until the remaining principal on the IDR bonds is retired, this may provide an obstacle to a financing institution wishing to extend credit to YBP. For the purposes of this study only, it will be assumed the IDR principal and interest payments are made on a timely basis.

PROJECTED OPERATIONS

This chapter deals with a hypothetical operation of the YBP packing facility. An integral part of this chapter is the Projected Financial Statements found in Appendix A3-A9. The observations in this chapter and the projections in the appendixes are generated from all aspects of this study including the engineering report, historical operating results, limiting operating factors such as water/sewer availability, personal interviews with owners/managers of the Midland facility, etc.

As is commonly pointed out... "computers can be made to say anything". The key to making an "educated guess" in a proforma or projected financial statement is determining the variables that provide the input for that statement. In every model and projected financial statement in the Appendix, the variables are only assumptions that may reflect the real world. The variables are not guarantees of financial performance.

The models that were developed use the following variables:

VARIABLE	"BASE CASE"
Cow/Bull cost per 100 lb.	$33.00
Fed Cattle cost per 100 lb.	$55.00
Cow/Bull Sales per lb.	$ 1.05
Fed Cattle Sales per lb.	$ 1.40
Price for Hides (Green)	$20.00

Percentage Good Hides	85%
Offal Sales per Head	$10.00
Cow/Bull Carcass Yield	50%
Fed Cattle Carcass Yield	60%
Cow/Bull Boning Yield	72%
Fed Cow Boning Yield	75%
Cow/Bull Kill/Month	1,700
Fed Cattle Kill/Month	300
Cow/Bull Live Weight	1,000 lb.
Fed Cattle Live Weight	1,200 lb.
Brand Inspection per Head	$ .50
Box/Container/Supplies per Head	$ 4.25
Ending Month Inventory per Head	200
Freight Out per lb.	$ .015
Hours Worked/Month	174
Payroll Tax Benefit	25%
Hourly Wage	$ 6.75
Freight In per Head	$ 5.00
% Bad Debts / Gross Sales	1%
People on Kill Floor	9
People Boning/Box/Shipping	13
Management	2
Number of Clerks	3
People - Miscellaneous	2

The projected operating statement for YBP for the base case scenario in Appendix A3 shows the facility achieving a pretax profit of approximately $136,000 and an after-tax

profit of approximately $82,000. Again, this is no guarantee that the facility will achieve this profitability. Much like the projected operations of the Midland facility, the "base case" scenario assumes certain market conditions, substantial retrofitting of the YBP facility, and that there is a competent management team in place.

For the purpose of comparison, three other operating statements have been created by changing only two of the variables in the model. These changes are summarized below:

Appendix #	COW/BULL COST per 100 lb. "base case"	change	COW/BULL CARCASS YIELD "base case"	change
A7	$33	$35	50%	50%
A8	$33	$33	50%	48.5%
A9	$33	$35	50%	48.5%

Appendix A7 changes the live weight price on cows/bulls from $33 to $35 per one hundred pounds. Appendix A8 changes the carcass yield from 50% to 48.5%. Appendix A9 which would be a "worst case" scenario of the three, changes the price and the carcass yield.

From these changes can be determined the following operating results:

APPENDIX	APPROXIMATE MONTHLY PROFIT (LOSS)
Base Case A3	$ 6,800
A7	$(22,500)
A8	$(7,400)
A9	$(41,400)

These changes again, merely show potential "real world" operating results. To reemphasize the need for good management, changing the amount of the carcass yield from the cows/bulls from 50% of the carcass weight to 48.5% of the carcass weight, the net income of the YBP facility declines from a profit of $6,800 monthly to a loss of $7,400 monthly. This demonstrates the need for a good cattle buyer. This buyer is an integral part of the management team and can literally "make you or break you" with his/her purchases in the auction market of live animals. Further, the change in a higher live weight cattle price without a subsequent retail revenue adjustment upward can cause losses. It was noted during the course of this study that the two markets did not necessarily move in tandem.

Appendix A4 would show a scenario for a second year of operations for YBP. This statement is based upon an increased slaughter of 2000 cows/bulls and 400 fed cattle monthly, along with a corresponding increase in the staffing requirements and other expenses. At this rate of slaughter, it would be difficult to expand the monthly kill due to the inadequacies noted in the engineering report.

The waste water disposal system, even if retrofitted to 100-120 daily kill rate, will remain a cumbersome system.

It has been determined that the capital needs to begin operations at the YBP Plant are as follows:

Loan for Plant Renovation	$363,000
Working Capital Loan	$160,000
Loan for Cattle Purchases (Appendix A5)	$550,000
	$1,073,000

The plant renovation consists of the investment required by the engineers report to make minor repairs and retrofitting of the facility for a total of approximately $58,000. Also, further investment is necessary to increase the facility's capacity for a 100 to 120 head per day slaughter. Under the current setup, the disposal system for the plant is quite inadequate for this projected slaughter. Per the engineering company which designed the plant, HKM and Associates of Billings, and the State of Montana Water Quality Bureau, the maximum daily slaughter capacity for the disposal system is 20 head per day.

The current design of the anaerobic separator and the waste water lagoon must be increased in capacity by at least two fold. An estimate on constructing another separator and another lagoon has been in the range of $225,000. Further, approximately 15 acres of land may be required for the facility site to expand the spray irrigation system farther away from the open water ditch behind the plant. This investment is calculated at

$75,000. A miscellaneous repair investment of $5,000 is further included to reduce the water seepage into the plant during times of rising water tables from irrigation practices in the Yellowstone Valley.

A current loan on the facility of $350,000 is assumed to be re-financed. This loan figure is determined from YBP owner representations.

Assuming the "base case" operating scenario and the capital requirements to reopen the facility, the YBP operation will cash flow on a positive basis, barring any sizable unforeseen expenses.

There are factors which again go beyond our model projection:

1. As has been stressed before the management team is crucial to the meatpacking business. In the course of this study this potential team for the YBP facility was not identified. In the case of this facility the small capacity would only require two "top notch" people on this team. One individual would be responsible for directing the actual slaughter procedure and maintaining the labor efficiency desired. The other individual would be responsible for the financial operations of the facility, including selling the red meat cuts from the 15 head of fed cattle slaughtered daily the first year to local consumers.

2. It is unknown whether the disposal system can be specifically retrofitted to handle the increase in slaughter projected. If the potential investment is beyond $250,000, or if the land is not available for the additions then it would not be feasible to reopen this plant. The method of disposal in use is not only antiquated but can result

in complaints filed against the plant by those individuals in the immediate proximity.

3. It must be assumed that a local demand for fed cattle meat products exists that will allow for the cost ineffectiveness of the processing. Someone at YBP would have to actively seek this market and respond to its needs.

4. It is unknown whether the cooler and refrigeration capacity is sufficiently large enough and in working order to allow a truckload of boneless cow/bull meat to be created for shipment every 2 days (approximately 20,000 lbs. per day). The engineers have suggested a retrofit to increase this capacity.

5. It is unknown as to any liens, judgements, or claims that have been filed against the YBP facility. Also, the financial condition of Mr. Weschenfelder, the represented owner of the facility, is unknown. It is assumed that there is no constraints in this regard to a reopening.

Based upon the assumptions that the plant can be retrofitted as needed, that a quality management team can be installed, and that a market can be found for the fed cattle slaughter on a local scale, it is The Project Manager's opinion that The Yellowstone Beef Processors meatpacking facility <u>can</u> be reopened on a financially feasible basis. However, potential profitability from the YBP facility will be subject to "limiting factors" as noted on the next two pages.

LIMITING FACTORS

It appears that there are at least two main factors which would limit the ability of the YBP facility to achieve at least industry wide standards for profitability and growth in the slaughter capacity at the facility. Both of these factors have to do with the end use of the edible and inedible portions of the slaughtered animal which are either not boxed for shipment, sold as specialty meat, or of obvious use by an off site renderer.

1. Notation has been made of the current inadequate method for disposal of waste from slaughter in excess of 20 head per day. A solution proposed was the investment in further lagoons and anaerobic separators. However, it would appear that beyond a slaughter rate of 120 to 125 animals per day, the question has to be answered as to the feasibility of simply adding more lagoons and separators. Because this method of disposal creates a noxious smell for people in the adjacent area (1-3 miles), it would not appear feasible to increase a slaughter speed beyond 120-125 animals and continue with this fairly antiquated disposal system. It may be necessary to retrofit the plant to a "contained" aerobic system of disposal rather than use the open lagoons and this may be cost prohibitive. Further, the city of Laurel, Montana will no longer accept sewage for primary and secondary waste treatment from users outside the city limits, as had been previously available.

2. The profit returns as a percentage of sales noted in Chapters 4 and 11 include a revenue addition for those packers with edible and inedible rendering systems. The YBP facility

has been deemed too small to justify either rendering system. It is difficult to clearly decipher that portion of revenue and profit (if any) from rendering for the meatpacking industry. However, it is suffice to say the YBP plant must depend on whatever revenue is generated from off-site independent renderers paid to YBP.

It would take a relatively long period of time for YBP to shape up a shipment of specialty meats and offal. A large packer can do it on a daily basis for revenue additions. For YBP to show adequate returns from drop credits (hide, offal, etc.), it is essential that one of the managers develop some personal selling relationships that will improve the margins from the drop, and allow smaller loads of drop to be sold. It is believed that other than revenue from hide credits and some selected specialty meats, the prior operation at YBP generated very little offal revenue. The projection in Appendix A3 shows that a substantial reduction in offal revenue would cease profitability.

SUMMARY

The Project Manager believes that the YBP facility can be operated in a financially feasible manner. This is subject to the following conditions...

1. A quality management team is installed at the facility.

2. The capital required for retrofit and working capital can be obtained.

3. The facility can be retrofitted to satisfy state and federal slaughter disposal requirements.

4. A local market can be found for a limited supply of fed cattle slaughter.

However, it is important to remember that the YBP plant will always be limited in kill size to approximately 120 head per day. Beyond this kill, the plant runs into serious questions in regards to the waste disposal system and cooler/freezer capacity (including refrigeration).

Appendix A3 should be examined with appendixes A7-A9 in mind. All four of these operating statements can represent real world scenarios, and potential losses in the A7-A9 projections could not be absorbed for any length of time at the YBP facility.

CHAPTER 7

THE QUESTION OF LIVE ANIMAL SUPPLY

In attempting to develop a potential supply of cows/bulls for slaughter, an industry average commonly used is determining a percentage of animals culled from the cow/calf producers. In other words, a certain number of animals will be directed to slaughter due to age, infirmity, certain weather conditions, and price levels in live cattle markets. From examination of other market studies on cow/bull slaughter inventories and conversations with individuals in the meatpacking industry, it appears that a range of 8% to 10% of total inventories will be culled for slaughter each year. For the purposes of this study, a 10% "cull factor" will be utilized.

The following table shows a summary of cow/bull inventories in Montana as listed on January 1 for the years 1983, 1984, 1985 and 1986.

	NUMBER BY CLASSES JANUARY 1			
	1983	1984	1985	1986
Beef Cows (000 head)	1,520	1,637	1,513	1,373
Milk Cows (000 head)	29	29	27	27
Bulls (over 500 lbs.)	87	98	89	90(est)
	1,636	1,764	1,629	1,490

SOURCE: MONTANA CROP AND LIVESTOCK REPORTING SERVICE

Using a simple 10% cull rate of the total inventories in the above table provides the following number of cow/bulls in Montana which may be directed to slaughter:

JANUARY 1

1983	163,600
1984	176,400
1985	162,900
1986	149,000

Even though these numbers show a declining level of availability, on first glance, there appears to be a sufficient number of cow/bull slaughter animals to support an animal slaughter approximating 100,000 head. Unfortunately, most market studies on live animal supply tend to use this overly simplistic example to justify slaughter projections.

To provide a more accurate picture of live animal availability, it is imperative that this method be substantially refined as follows.

An examination of a hypothetical model of the last 3 years of cattle marketing will now follow. Table 1 shows a listing of all the licensed livestock auction markets in Montana. The total numbers of cattle which were sold in these markets are listed for the years 1983-1985. Also, the distance in road miles from the market to Billings, Montana is listed on the far right side of Table 1.

Table numbers 2-4 in turn show a breakdown of the different classifications of animals marketed on a month to month basis for the years 1983 to 1985. The totals for the

TABLE 1

STATE OF MONTANA
BRANDS-ENFORCEMENT DIVISION
DEPARTMENT OF LIVESTOCK
HELENA, MONTANA

CATTLE INSPECTED AT MARKETS

	1983	1984	1985	ROAD MILES FROM BILLINGS*
Baker	11,201	5,462	5,666	225
Baker (North Dakota)	1,050	73	108	
Baker (South Dakota)	149	77	2	-0-
Billings BLS (Montana)	81,100	96,072	83,209	
Billings BLS (Wyoming)	3,033	3,953	4,027	
Billings PAY (Montana)	165,025	201,384	201,033	
Billings PAY (Wyoming)	11,487	9,230	10,530	
Bozeman	27,972	33,308	35,277	141
Butte	107,531	113,440	111,962	223
Chinook	21,312	25,903	24,996	229
Dillon	33,351	31,382	30,180	253
Glasgow	57,797	62,160	38,620	279
Glendive	20,303	21,788	17,963	222
Glendive (North Dakota)	--	150	91	
Great Falls GFL	34,063	62,735	30,622	219
Great Falls WLA	81,255	81,889	75,945	
Kalispell	26,356	28,090	22,118	420
Lewistown	41,170	43,181	33,823	128
Miles City	38,868	42,039	47,163	145
Missoula	38,787	41,181	35,627	340
Shelby	7,522	12,115	7,222	307
Sidney	49,972	59,869	52,386	271
Sidney (North Dakota)	12,253	14,449	11,217	
TOTAL	871,557	989,930	879,787	

*Source: Official Montana 1983-1984 Highway map.

TABLE 2

Montana Livestock Sales

Market All
Year 83

Sold in/out of state

	Steers	Cows	Heifers	Bulls	Calves
January	14705	31123	11677	3972	39313
February	13884	18603	12594	2742	14178
March	28768	17592	25461	4913	12996
April	21556	15156	24370	6211	5548
May	14280	17641	15789	4677	3931
June	7456	18836	6739	3656	2357
July	2766	9515	2195	1768	1210
August	6492	11479	5058	2560	1780
September	19013	10835	14196	2352	2683
October	21761	23016	18198	2760	43117
November	14198	40902	12353	3298	76173
December	7952	39389	13454	2643	37908
Total	172831	254087	162084	41570	241200

SOURCE: MONTANA DEPARTMENT OF LIVESTOCK

TABLE 3

Montana Livestock Sales

Market All
Year 84

Sold in/out of State

	Steers	Cows	Heifers	Bulls	Calves
January	12788	34125	12354	2425	38019
February	15097	21224	16946	3310	21787
March	25256	19496	25755	5182	13445
April	19354	17626	21007	6529	7458
May	15661	25881	17994	5929	7482
June	4957	21111	7717	3715	4276
July	4071	15190	4107	2718	3899
August	7845	13585	4378	3060	2671
September	17630	15464	13271	2899	7516
October	19591	35364	15622	3479	54367
November	18270	56873	15960	3676	94536
December	9133	41819	13855	2086	32289
Total	169653	317758	168966	45808	287745

SOURCE: MONTANA DEPARTMENT OF LIVESTOCK

TABLE 4

Montana Livestock Sales

Market All
Year 85

Sold in/out of state

	Steers	Cows	Heifers	Bulls	Calves
January	13756	31215	11897	2376	40237
February	14321	21488	17211	3292	25254
March	12900	18839	15091	3294	8213
April	19338	18142	21877	6194	5152
May	12829	27533	14734	5360	7707
June	4564	20123	5474	3196	3704
July	5285	19557	5383	3359	5642
August	4728	11597	4314	2780	4125
September	11768	10198	8268	2173	5071
October	15520	32503	16076	3314	46965
November	12420	41966	11112	3239	74467
December	8443	42675	8748	2818	40002
Total	135872	295836	140185	41395	256539

SOURCE: MONTANA DEPARTMENT OF LIVESTOCK

years in these tables correspond to those years in Table 1.

Obviously, from examination of Tables 2-4 it is apparent that the different classifications of animals are not marketed evenly on a month to month basis. This is a function of breeding cycles. For example, the highest numbers of cows going to market occur in the months of November and December. The cow/calf producer removes those animals which do not stand a good chance of living through the severe winter conditions. Thus, the number of "culls" is high and the supply of potential slaughter animals is high.

Because we are concentrating on the cow/bull inventories, Table 5 shows this variation in the month to month numbers of animals marketed for the years 1983 to 1985. The percentages for each month are determined by dividing the numbers of cows and bulls marketed each month by the total number of cows and bulls marketed for the year. For example, in January 1985, a total of 33,591 cows/bulls (determined by adding 31,215 cows and 2,376 bulls from Table 4) was marketed out of a total of 337,231 cows/bulls for all of 1985. This was 9.96% of the cows/bulls marketed in the auction yards that year.

Returning to the previously determined potential cull numbers of cows/bulls, it is necessary to add those animals in the State of Wyoming which may be directed to a Billings meatpacker. Table 6 lists different classifications of animals in the five counties of Wyoming with the closest proximity to Billings and the totals for Wyoming. Using a

TABLE 5

Percentage of Cows/Bulls Marketed
Annually on a Monthly Basis

	1983	1984	1985	Average
January	11.87%	10.05%	9.96%	10.63%
February	7.22%	6.75%	7.35%	7.11%
March	7.61%	6.79%	6.56%	6.99%
April	7.23%	6.64%	7.22%	7.03%
May	7.55%	8.75%	9.75%	8.68%
June	7.61%	6.83%	6.91%	7.12%
July	3.82%	4.93%	6.79%	5.18%
August	4.75%	4.58%	4.26%	4.53%
September	4.46%	5.05%	3.67%	4.39%
October	8.72%	10.68%	10.62%	10.01%
November	14.95%	16.65%	13.40%	15.00%
December	14.21%	12.30%	13.51%	13.33%
	100.00%	100.00%	100.00%	100.00%

As of January 1,

	1983		1984		1985	
	All cattle & calves	cows/bulls	All cattle & calves	cows/bulls	All cattle & calves	cows/bulls
Bighorn County, WY	$ 53,000	$ 30,000	$ 50,000	$ 29,000	$ 51,000	$ 29,000
Sheridan County, WY	83,000	47,000	75,000	43,000	76,000	43,000
Park County, WY	97,000	55,000	87,000	50,000	81,000	46,000
Washakie County, WY	45,000	26,000	46,000	27,000	45,000	26,000
Johnson County, WY	56,000	32,000	53,000	30,000	51,000	29,000
Subtotal	334,000	190,000	311,000	179,000	304,000	173,000
Remaining WY Counties	1,141,000		1,084,000		1,061,000	
Wyoming Totals	1,475,000		1,395,000		1,365,000	

Source: Wyoming Crop and Livestock Reporting Service

Note: The cow/bull subtotals for 1983-1985 are estimates based upon an average percentage of all cattle and calves determined from historical reporting sources.

10% "cull factor" on the cow/bull inventory totals will add to the total available cow/bull animals culled for potential slaughter. The available inventories for such slaughter are as follows:

JANUARY 1

	1983	1984	1985
Montana	163,600	176,400	162,900
Wyoming	19,000	17,900	17,300
Total	182,600	194,300	180,200

There are cow/bull animals which may be directed toward potential slaughter in a Billings, Montana packing facility from outside the State of Montana and those 5 Wyoming counties. However, the competition for these animals from the large regional and national packers operating in Rapid City, South Dakota; Denver/Greeley, Colorado; and Boise/Nampa, Idaho would tend to make those numbers insignificant.

Assuming that the above numbers are representative of the total "universe" of cull/bull slaughter supply, further refinement is in order to make note of distances from auction yards to Billings, Montana and competitive auction market conditions. Two things are quite obvious...not every cow/bull culled for slaughter in Montana will be transported to Billings due to high freight charges, and not every cow/bull purchased in the Montana livestock auction markets will be directed to one packing facility.

Examination of Table 1 shows the auction market distances from Billings. A majority of these markets are in excess of 200 miles from Billings. For purposes of this study, those auction markets which are 250 miles or more from Billings are removed as potential sources of supply due to high freight charge. The exceptions are Glasgow, which is not removed due to remoteness from other United States packing facilities and Baker, which is removed due to its close proximity to the packing facilities in Rapid City. Over the 1983-1985 period, removing Baker, Dillon, Kalispell, Missoula, Shelby and Sidney reduces the potential supply of cattle auctioned in Montana available to a packing facility in Billings by approximately 20%.

Further, livestock auction markets are exactly that...auctions. By the very nature of auctions, individual buyers compete against each other on both price and quantity purchased. To insure a "fair market" livestock auction, it is important to have sufficient numbers of qualified buyers and a sufficient supply of live animals.

It was not possible to get a list of livestock buyers for the markets in Montana, which would show the concentration of purchases. However, for the purposes of this study, it will be assumed that the buyer(s) for one meatpacking facility will purchase 50% of all available live animals. In most real life auction markets with more than 2 participants, a motivation to purchase 50% of

available supply could be detrimental to both the seller and the purchaser. These percentages are only for the purpose of illustration of a supply scenario for live animals.

To further refine the cow/bull inventory for potential slaughter, it is assumed that of the culled animals, 15,000 per year are slaughtered for current demand by other meatpackers in Montana or are slaughtered for personal consumption by the cow/calf producer.

An examination of the previously determined 10% cull factor inventory shows the following adjustments...

	JANUARY 1		
	1983	1984	1985
Cull Factor (10% of total cow/bull inventories)	182,600	194,300	180,200
Less: previous slaughter demand	15,000	15,000	15,000
Subtotal	167,600	179,300	165,200
Less: 20% of inventory beyond 250 miles	33,500	35,900	33,000
Subtotal	134,100	143,400	132,200
Less 50% of available inventory not purchased	67,050	71,700	66,100
Total cow/bull inventory available to one packer	67,050	71,700	66,100

For the reasons given in this discussion, the above figures would appear to be a more "real-world" portrayal of the supply of cows/bulls available to the meatpacker, than the fairly simplistic 10% cull factor on total cow/bull inventory available to the packer. Not only do these lower numbers on availability give rise to the question of animal

slaughter capacity, but a month to month examination shows the widespread fluctuations of availability.

As mentioned previously, the cow/bull live auction market is not one of consistent supply. Referring back to Table 5, it is clear as to the animal trend in the live markets. If the monthly percentage of cows/bulls coming to market is examined in the context of the adjusted cow/bull inventory available to one packer, the variations in actual monthly availability is dramatic. Table 7 multiplies these percentages by the adjusted cow/bull inventory.

This model shows the wide fluctuation in potential animal supply on a month to month basis. Using several different assumptions for the number of slaughter days in a month would provide the average daily availability. If the assumption is made that there are 15 slaughter days of operation in the three months of lowest availability (July, August, September) and that there are 21 slaughter days of operation the rest of the year...the average daily availability for slaughter for each month is listed below.

MONTH	DAILY AVAILABILITY
January	345
February	231
March	227
April	228
May	282
June	231
July	236
August	206
September	200
October	325
November	487
December	433

TABLE 7

AVAILABLE COW/BULLS ON MONTHLY BASIS

	1983	1984	1985	Average
January	7,958	7,206	6,584	7,258
February	4,841	4,839	4,858	4,855
March	5,103	4,868	4,336	4,773
April	4,848	4,761	4,773	4,800
May	5,062	6,274	6,445	5,927
June	5,103	4,897	4,567	4,862
July	2,561	3,535	4,488	3,537
August	3,185	3,284	2,816	3,093
September	2,990	3,621	2,426	2,997
October	5,847	7,658	7,020	6,835
November	10,024	11,938	8,857	10,242
December	9,528	8,819	8,930	9,102
Total	67,050	71,700	66,100	68,283

If a referral is made to Chapter 11 on relative average slaughter costs shows that it is imperative that a slaughter facility operate at or near full capacity. From the discussion above on cow/bull availability, a facility with a slaughter capacity of 225 to 235 per day would allow the plant to operate near full capacity the entire year. This is excluding fed cattle slaughter which will be projected at 40 to 60 per day maximum in Chapter 13.

To increase the daily availability it is possible to either purchase a higher percentage of available cow/bulls than the 50% in the model. However, the question then becomes... can the cattle buyer obtain the quality animals wanted for the "going market" live weight price? The projections in Appendixes A7-A9 demonstrate that a decline in carcass and boning yields without a corresponding decline in live weight price can be devastating to a facilities' profitability.

It may be possible to concentrate on more direct purchases made from one cow/calf producer to increase cow/bull availability, rather than limit the availability from only the live market auctions. This would require the cow/calf producer to take an active interest in a slaughter facility which is further discussed in Chapter 13.

SUMMARY

This chapter dealt primarily with the availability of cows/bulls for a slaughterhouse in Montana, with a specific focus on the Billings area. Past studies on the slaughter industry, which were examined for this study, have not refined "bulk" cow and bull live animal inventories for potential cull animals directed to slaughter.

For example, using a simple 10% "cull factor" on total cow/bull inventories in Montana for the years of January 1, 1982 to January 1, 1986 shows approximately 150,000 to 175,000 cull animals available for slaughter. While this may appear to be sufficient to justify a 100,000 head animal slaughter, in reality it would be difficult for one facility to obtain such a supply. For reasons such as market distance from the facility, prior commitments for the animals, competition in auction markets, etc., it appears that the actual number of cows/bulls available to one facility is 65,000 to 70,000 on an annual basis.

Also, the culled cows/bulls are not marketed on an even number each month for the year. There are wide fluctuations in the per month availability of these animals. On average, 4% to 5% per month of annual availability is normal for the months of July to September. In contrast, 10% to 15% per month of annual availability is normal for the months of October to December.

With the absolute need of a packing plant to operate

near capacity, it would seem to be feasible to build a plant that would operate near 100% capacity during low cow/bull availability, which would be a daily slaughter of 225 to 235 animals. A facility that would need to purchase more cows/bulls would perhaps get a lesser quality animal without a correspondingly lower live weight price.

Added to this cow/bull slaughter will be a fed cattle slaughter which will be 40 to 60 per day maximum capacity. Ideally, this puts a plant in the 275-300 head per day in the optimal usage capacity.

In the months of larger cow/bull availability the facility could operate 6 day kill weeks to take advantage of the supply. Conversely, months of low availability could allow the facility to be operated 3 to 4 days per week.

CHAPTER 8

MYTHS EXPLODED

In the course of research for this study, several economic and social perceptions were noted which will be called "myths". Webster (1982) Second Edition defines "myth" as:

> "any fictitious story or unscientific account, theory, belief, etc."

Basically, a myth can be based upon a historical account but have no scientific basis.

It is no myth that the cattle industry in Montana is a powerful economic, political, and social force. As stated earlier, it's origins date to 120 years ago. However, several "myths" exist today which can cloud the issue of how live cattle can be turned into red meat in a profitable manner.

If the assumption is made that the population of Montana is approximately 800,000 and the per capita consumption of red meat is approximately 76 pounds per year, this works out to an annual total consumption of 60,800,000 pounds of red meat. Assuming a net carcass and boning yield of 400 pounds per head slaughtered, this works out to 152,000 live head of beef cattle per year needed for slaughter.

Myth #1: Just serving the Montana market for red meat alone should provide an in-state meat packer with an animal slaughter demand of 150,000 live animals.

It is important to remember that despite an inventory of approximately two and a half million cattle and calves in Montana, not all of that inventory is dedicated to providing red meat. While this inventory ranks Montana as the 14th largest state as measured in total cattle and calves, only 80,000 head in Montana were "cattle on feed" as of January 1, 1986. Assuming that latter number could be turned 1.75 times per year for a total of 140,000 head, it would still be quite improbable for a meatpacker in a single location to acquire enough fed cattle to serve the Montana market. It appears that the industry standard is a maximum of 150 miles for transportation of fed cattle to a meatpacking facility. Anything over that distance greatly increases the mortality factor and injury factor such as bruising of the animal. Granted, a meatpacker dedicated to slaughtering fed cattle would cause the inventory of such cattle to rise. However, for reasons described in this chapter and chapter 4, any attempt to enter the slaughter market for fed cattle in a sizable manner would meet with extreme resistance by the current major participants in the market.

Myth #2 A red meat product available to consumers with a notation that the product was produced and processed within the state of Montana would entice in-state consumers to purchase such a product in large quantities irregardless of the price.

Chapter 11 demonstrates that the larger national meat packers have a large cost advantage over the smaller local packer on a per head slaughter cost that approaches 50% to 60% of the total cost. This cost advantage is more than sufficient to pay the transportation expense for the live animal to the packing facility out of state and the expense of shipping the processed meat product back to the state. Therefore, the large meatpacker has a higher gross profit margin by which to fight the local packers for market share.

While the "Made in Montana" promotional campaign could be applied to retail meat products, that campaign does not necessarily promote Montana products that are of higher cost than those of out-of-state competitors.

In order to examine the price elasticity of demand for beef from a Montana slaughterhouse, it is important to understand how beef prices are determined in the market. A majority of packers and retailers use "Yellow Sheet" prices when buying carcasses and fabricated cuts. "Yellow Sheet" carcass prices are based on daily reported transactions from sampled buyer-seller negotiations and are published by the National Provisioner of Chicago. Other sources for carcass prices include the "Market News", published by the USDA. The "Yellow Sheet" data are most often used by traders in carcasses of fattened animals, while cull cow carcasses are traded at prices reported in the "Meat Sheet" or the "Market News".

Irregardless of beef industry participant opinions, we will assume that the majority of beef is traded at the published "Yellow Sheet" or "Market News" price. A small individual packer will have little or no control over the price it receives for its output. Any attempt to raise price above the "Yellow Sheet" price will, at least in the long-run, drive sales to approximately zero. In a highly competitive industry such as the market for beef, a small packer will be a "pricetaker".

The elasticity of demand is formally defined as the percentage change in quantity demanded divided by the percentage change in the price of the product. The relationship between the market elasticity of demand for beef and the demand facing an individual packer is captured by the following formula (Maurice, Phillips, and Ferguson (82)):

$$E_i = \frac{E_m}{S_i}$$

where: E_i = the elasticity of demand facing the individual packer

E_m = the market elasticity of demand

S_i = the percentage of the total industry's output produced by the firm

For a packer such as Midland or K-K, the market share S_i is obviously a very small number, which implies the elasticity of demand facing the firm is very large. This suggests that a small increase in price will cause an

suggests that a small increase in price will cause an extremely large reduction in the quantity of beef demanded (the packer's sales will go to approximately zero).

The "Made in Montana" promotional campaign would have some effect on local demand for a red meat product which is produced and processed in-state. Because of time and budget constraints, this study has not attempted to measure that effect. It is anticipated that some consumers such as restaurants would be able to advertise a Montana beef product. However, the price of a meal is only one of several aspects in determining the demand for that meal.

Myth #3 A beef product which is produced and processed within the state of Montana is a superior product.

Beef in the form of primal and subprimal red meat weights is a very homogeneous product. Allowing for differences in grass fed cattle and grain fed cattle, beef is basically the same quality product. In the study on the Analysis of the Foreign Market Potential for Montana Processed Beef, it was stated that "the delineation of processed Montana beef as being a markedly different commodity from beef of similar quality from other regions appears to be almost impossible (Amec, Inc. (1986)).

It is true that the conception of Montana as being a pure and pristine environment could again be a marketing tool of some use for red meat products. However, the scope and direction outside of Montana is unknown at present. For example, the populace of Colorado has been subjected to

an intensive marketing campaign which has a theme revolving around the claim that "Colorado Beef" is the best beef product available. Also, the attempt to market beef with the "Coleman" name is an example of an attempt to use a perception of freshness or pureness to assist the consumer in identifying a particular beef product. This will be further discussed in Chapter 13 of this study.

In the course of research for this study several economic and social perceptions were noted which are defined as "myths". The belief in these myths tends to reduce rational decision making processes in the meatpacking industry to more "emotional" guesses or hopes.

Myth #1: (Just serving the Montana market for beef alone should provide an in-state meatpacker with enough demand.) This is not possible because the supply of fed cattle is not sufficient and the market would have to be taken away on a competitive basis from those participants supplying the beef products currently.

Myth #2: (A red meat product denoted as produced and processed in Montana would attract sizable demand irregardless of price.) This is not possible because as noted earlier in the study, there are sizable meatpackers with substantial cost advantages of slaughter who would compete with a Montana meatpacker. Also, the price of beef is highly elastic, meaning an individual packer is not able to raise prices above the "market" without risking a large decline in sales. The notion that a "Montana product" would command substantial demand at a higher price is not true.

Myth #3: (A beef product produced and processed in Montana is superior.) This is not true because beef is a homogeneous product. Allowing for differences in grass fed

versus grain fed cattle, and further differences in breeds of cattle, beef is basically the same product in appearance, texture and taste.

CHAPTER 9

COMPETING MEATPACKERS
IN THE REGION

The demand for beef in Montana is obviously being supplied by meatpackers at present.

Shown below are the beef packers that have been identified as operating in Montana and neighboring states. Specifics on various plants' locations and operations are difficult to obtain, and must be gleaned from a variety of sources. The following information was obtained from two publications: the USDA's Meat and Poultry Inspection Directory (August 1984), and A Study of Meat Packing in Utah (1983); as well as from many conversations with assorted individuals in the beef business scattered throughout the region. The list may contain errors and/or omissions.

COMPETING PACKERS

Company	Location	Comments
COLORADO:		
Calloway Packing Co.	Delta	
Donoho Beef Co.	Fort Collins	Cow & bull slaughter
Elizabeth Locker Plant	Elizabeth	
G & C Packing Co.	Colorado Springs	
Litvak Meat Co.	Denver	Large operation
Monfort	Greeley	Large; packer/feeder operation

Sisneros Brothers	Pueblo	
Sterling Beef Co.	Sterling	Large operation
IDAHO:		
Armour Foods	Nampa	Kill some cows/bulls
Boise Valley Packing Co.	Eagle	
Bryant's Packing Co.	Burley	
Davis Packing Co.	Boise	
Gem Meat Packing	Boise	
Golden Valley Packers	Roberts	Cows/bulls 350head per day
Independent Meat Co.	Twin Falls	
IBP	Boise	Large operation
H.H. Keim Co.	Nampa	
Y J Foods, Inc.	Coeur d'Alene	
MONTANA;		
Hamilton Packing Co.	Hamilton	
Mickey's Packing Co.	Great Falls	
Miles City Packing Co.	Miles City	
Rahr Meat Service	Glendive	
Ranchland Packing Co.	Butte	
Roberts Packing Co.	Dillon	
Stampede Packing Co.	Kalispell	
Vaughn Meat Packing	Vaughn	
White's Wholesale Meats	Ronan	
NORTH DAKOTA;		
Aneta Meats	Aneta	

Cloverdale Foods Co.	Mandan	
Held Beef Indust., Inc.	West Fargo	Cows/bulls
Hillside Meat Co., Inc.	Williston	
M & W Beef Packer, Inc.	Mandan	
Missouri Valley Meat Co.	Mandan	
Dakota Packing Co., Inc.	Hettinger	
SOUTH DAKOTA:		
Alcester Meats, Inc.	Alcester	
Black Hills Packing Co.	Rapid City	Lg. cow/bull operation
Cimpl Packing Co.	Yankton	Has own sausage brand
Huron Dressed Beef, Inc.	Huron	Cows/bulls
R C Western Meats, Inc.	Rapid City	
John Morrell & Co.	Sioux Falls	Multiline operation
UTAH:		
Blue Mountain Meats	Monticello	
Cedar Packing Co.	Cedar City	
Les Hardy & Sons	Springville	
Lewis Meats	St. George	
Farnell's Packing Co.	Laketown	Family operation; does custom work
Dale T. Smith & Sons	Draper	
E.A. Miller & Sons	Hyrum	650 to 750 head/day
WYOMING:		
Kelly Packing Co.	Torrington	
Logan Packing Co.	Riverton	

SUMMARY

There are out-of-state meatpackers which compete for both the live animal market and the red meat market in Montana. For example, the grocery store chain of Buttrey's, which is Montana based, apparently buys most of its beef products from Iowa Beef Processors. Also, Black Hills Packing Company in South Dakota is a major participant in the cow/bull slaughter market. The point being, on top of various difficulties a Montana meatpacker will face in a startup situation, the current competition will not disappear.

CHAPTER 10

RECENT TRENDS IN MEAT INSPECTION

The most current and comprehensive source for trends in meat inspection is a recently completed report prepared by the Committee on the Scientific Basis of the Nation's Meat and Poultry Inspection Program. Their publication, titled Meat and Poultry Inspection: The Scientific Basis of the Nation's Program, was prepared at the request of the Food Safety and Inspection Service (F.S.I.S.). It is this report that is the single source of the following discussion of the changing nature of beef inspection.

The Federal Meat Inspection Act of 1906 requires that beef be inspected before, during and after the slaughter. The purpose of the examination is to search for signs of disease of lesions that make the meat unsuitable for consumption by humans. Of primary concern in meat inspection are eight broad classes of public health risk: bacterial infections, bacterial toxins, parasitic infections, fungal toxins, viral infections, chemical residue toxicants, intentional additives, and process-induced toxicants.

Historically, antemortem inspection has required an examination of all animals both in motion and at rest on the day of the slaughter. This has been viewed as necessary since some diseases, such as rabies, cannot be detected by currently used postmortem inspection

techniques. However, on average only 3 animals in 1,000 have not passed antemortem inspection. This has raised the question of whether a variable antemortem inspection, based on some sampling plan, might be more cost effective and desirable.

The USDA approved a plan in 1982 that, under certain conditions, allows plant management to elect an alternative antemortem inspection procedure. The plan forces the inspector to examine all animals while they are "at rest", but only a sample of 5% to 10% of the animals must be observed in motion. Valid sampling plans such as this are supported by The Committee on the Scientific Basis of the Nation's Meat and Poultry Inspection Program, and in the face of severe budget constraints it seems quite likely that the F.S.I.S. will gradually move beef inspection further in this direction.

Postmortem inspection of cattle includes examination of the head and cervical lymph nodes, the visceral and body lymph nodes, the internal organs, and the carcass. New methods of postmortem inspection, designed to improve efficiency, have been instituted or are currently under development. The following table, reproduced from the FSIS sponsored study, summarizes the past, present and proposed postmortem inspection procedures.

Beef Inspection Procedures: Past, Present, and Proposed

Traditional	Present	Proposed by USDA
CATTLE		
During each of three phases--head, viscera, and carcass inspection--an inspector performs a sequence of observing, palpating, and, for head and viscera inspection, incising tissues.	Head inspection includes: • observing head's surface and eyes; • incising and observing mandibular, parotid, atlantal, and supra-pharyngeal nodes; • incising and observing lateral and medial nodes; • incising and observing masticatory muscles (cheeks); and • observing and palpating tongue. Viscera inspection includes: • observing mesenteric nodes, abdominal viscera, esophagus and spleen, and ventral surface of lungs; • observing and palpating ruminoreticular junction, costal surfaces of lungs; • observing surfaces of liver; and • incising and observing bronchial and mediastinal lymph nodes, heart, hepatic nodes, and bile duct. Carcass inspection includes: • palpating lymph nodes; • observing lumbar region; • observing and palpating kidneys; • observing diaphragmatic pillars and peritoneum; • observing and palpating diaphragm; and • observing pleura, cut surfaces of muscles and bones, neck, and carcass exterior.	The proposed procedure differs from current inspection in that it would: • combine carcass with viscera inspection, thus reducing inspection stations in many places from three to two; • eliminate the need for the inspector to observe, palpate, and incise certain tissues at both the head and viscera station; • require plants to provide an employee to palpate tongue and be responsible for notifying inspector of abnormalities; • remove kidneys from their capsules for presentation at viscera station; and • remove dressing defects and minor conditions (small bruises, minor adhesions) to be verified by a reinspection program rather than by an inspector at the carcass station. The "Beef Carcass Online Quality Control System" is under study. Head inspection would eliminate the incising of atlantal nodes (observation still required) and the palpation of the tongue.

Beef Inspection Procedures: Past, Present, and Proposed (continued)

Traditional	Present	Proposed by USDA
CATTLE		
		Viscera/carcass inspection would eliminate: • observation of ventral surfaces of lung (though still requires observation and palpation of dorsal (costal) surfaces); • incision and observation of right bronchial node; • incision of hepatic nodes (observation required); • palpation of rumino-reticular junction (observation required); • palpation of diaphragm and supramammary and internal iliac lymph nodes (observation of diaphragm and nodes required); • observation of spinal column and surrounding tissues; and • palpation of kidneys (observation required).

Source: Meat and Poultry Inspection: The Scientific Basis of the Nation's Program, National Academy Press, Washington D.C. (1985).

After examination the inspector may condemn an entire carcass or parts of it. The decision is based on five types of considerations: diseased or abnormal tissue; localized versus generalized disease and acute versus chronic; derangement of body functions; injury to consumer's health; and offensive or repugnant appearance. The condemned animals should be quickly separated from edible food and promptly destroyed under inspector supervision.

With regard to inspection in beef processing plants, a major change took place in 1980 when a plan called voluntary total quality control (TQC) was first permitted by the FSIS. The TQC plan places most of the responsibility of quality control on industry, which is monitored by the F.S.I.S.. As of April 1, 1985 the USDA had approved 475 TQC systems, covering about 7% of all meat and poultry processing plants.

To satisfy USDA inspection requirements under the TQC plan a processor must submit a letter stating its reasons for seeking total quality control approval along with a written plan outlining the quality control checks to be implemented. The plan must address such concerns as what materials the plant will use for packaging; what quality control measures will be implemented; who will be responsible for making quality control checks in different areas; and what policies will be in place for handling inedible materials.

The TQC plan is significant because it is an attempt to shift a larger portion of the responsibility of quality control to industry. Budget considerations may force the F.S.I.S. to rely more heavily on private industry to take the initiative in areas of quality control. In light of such cost considerations, the Committee on the Scientific Basis of the Nation's Meat and Poultry Inspection Program favors the incorporation of the Hazard Analysis Critical Control Point Approach to Food Safety (HACCP) into the TQC program.

The HACCP program consists of an analysis of hazards associated with processing operations and the determination of critical control points necessary to prevent the identified hazards. The HACCP approach is a move away from continuous inspection in meat processing plants, where the committee believes it is not necessary to ensure food safety. However, the committee points out that in slaughter facilities continuous inspection is currently needed.

SUMMARY

As noted in Chapter 4, the Federal Government requires that beef be inspected before, during and after the slaughter. Obviously, the purpose of this inspection is to search for abnormalities in the meat that may make it inedible for human consumption. All packing facilities operating with F.S.I.S. approval must have beef inspected whether the slaughter is 20 per day or 2000 per day. The inspectors are F.S.I.S. employees.

While all beef must be inspected, not all beef must be "graded". As noted in Chapter 4, the USDA began grading meat in 1927 to assist consumers with judging the quality of red meat. Grading is primarily important where fed cattle are being slaughtered in large numbers and the goal is to produce as much prime and choice cuts of meat as possible. A meat grader is federally certified but is an employee of the packing facility and paid by the facility. Estimates on the annual cost of a grader are in the $50,000 to $60,000 range.

This could be a significant cost to a relatively small meatpacker such as the YBP or an alternative facility if a large number of fed cattle are being slaughtered. Except for Appendix A12 in the projected financials, there is no expense recognized for a grader because of the relatively small (10-30 head per day) fed cattle slaughter. However, if the "specialty markets" are targeted with an eventual

fed slaughter in the 30 plus head per day area, a grader may be required.

From conversations with the USDA, it appears that a test program is being developed to cross train a meat inspector to play a double role as a meat grader. Allowing for future federal budget constraints, this test program may allow for limited grading of red meat in a relatively small Montana meatpacking facility.

CHAPTER 11

ANALYSIS OF OTHER COMPARABLE SIZED SLAUGHTER FACILITIES FOR COST AND MARKET EFFECTIVENESS

In order to study the cost and market effectiveness of other slaughter facilities emphasis was placed on two sources of information: (1) The American Meat Institute Annual Financial Review of the Meat Packing Industry, 1984 and (2) Cothern, Peard and Weeks (1978): "Economies of Scale in Beef Slaughtering: Northern California, 1976." The reluctance of individual slaughter facilities of a size comparable to Midland or YBP to release information on actual profit and costs necessitates the use of data obtained from other sources. The American Meat Institute's report summarizes confidential data supplied by 148 companies of various sizes. The data will be quite useful in examination of how the industry's costs are divided among raw materials, wages and salaries, depreciation, etc.

The Cothern, Peard and Weeks study uses a common economic technique called "cost synthesis" to obtain estimates of per-head slaughter costs for a variety of different sized packing plants, including plants of a size comparable with Midland. Unfortunately, the Cothern study was published eight years ago and, to the best of our knowledge, an updated version does not exist. It is a simple matter to use a price index to update the Cothern report for inflation, but this approach fails to take into

consideration any changes in technology or relative input prices that may have occurred over the last several years. Still, the Cothern report is the most comprehensive engineering cost study available, and it will provide considerable insight on the magnitude of economies of scale in the meat packing industry. It will also augment the American Meat Institute (AMI) study in examination of the various costs of a slaughterhouse and the relative importance of each expenditure item in the total costs of beef packing.

The AMI study includes data from both meat packing and meat processing companies. Participating packers accounted for 57 percent of the commercial cattle slaughtered in 1984. The report summarizes financial information for three classes of packers. As noted in chapter 5, national packers are defined to be those companies with annual sales in excess of $500 million; regional packers are those companies with annual sales between $50 and $500 million, and local packers are those with sales under $50 million. In analyzing the feasibility of operating the Midland or YBP plants, the AMI summary of revenue and costs of the smaller local packers will be of particular interest. The percentage breakdown of the sales dollar by company classifications for 1984 is shown on the following page.

Percentage Breakdown of the Sales Dollar
by Company Classifications, 1984

Item	Meat Packing Companies [1]				Meat Processing Companies
	National	Regional	Local	Total	
Total Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Livestock and Raw Materials	79.09	79.66	76.23	79.14	60.25
Gross Margin	20.91	20.34	23.77	20.86	39.75
Operating Expenses					
Wages and Salaries	6.89	6.90	8.96	6.94	12.03
Employee Benefits:					
Retirement Expense	.23	.26	.33	.24	.37
Payroll Taxes	.55	.59	.74	.56	1.05
Insurance & Hospitalization	.76	.72	.76	.75	1.20
Vacation, Holiday & Sick Leave	.37	.40	.30	.37	.80
All Other	.13	.08	.06	.12	.19
Total Benefits	2.04	2.06	2.18	2.05	3.62
Interest	.35	.24	.42	.33	.62
Depreciation	.73	.69	1.03	.73	1.57
Rents	.36	.25	.32	.34	.63
Taxes*	.13	.13	.13	.13	.25
Supplies & Containers	3.40	2.69	3.43	3.26	5.70
All Other Expenses	5.89	5.33	5.07	5.76	9.93
Total Operating Expenses	19.79	18.29	21.57	19.54	34.34
Income Before Taxes	1.12	2.05	2.21	1.32	5.41
Income Taxes	.45	.88	.90	.54	2.45
Net Income	.67	1.17	1.31	.78	2.96

[1] *Note that the meat packing companies which report to the AMI may slaughter cattle, hogs, lamb, or any combination of the three.*

It is clear from the above table that meatpacking is a low profit margin as a percentage of sales industry. Interestingly, the reporting local packers have a higher ratio of net income to total sales than do the large national and regional packers. One reason for this may be the lower cost of livestock to the small local companies. However, this is partially offset by the higher slaughtering costs of the smaller firms. The operating expenses of the local firms are 21.57% of the sales dollar, while operating expenses for the larger regional packers average to only 18.29% of total sales. This difference in slaughtering costs will be explored further when we discuss the Cothern, Peard and Weeks study.

The largest single operating expense for meat packing companies is wages and salaries. As one would expect, the data reveals that this item is more important for the local companies than the larger, highly capitalized slaughterhouses. Total industry labor costs declined for the third year in a row in 1984, primarily due to packers utilizing labor-saving technologies.

The following table, taken from the AMI report, summarizes employment and earnings in meat packing, meat processing, and all manufacturing for the years 1983-84.

Employment and Earnings, 1983-84

Item	Unit	1983	1984
Meat Packing			
Total Employees	Thous.	143.4	146.7
Production Workers	Thous.	116.7	121.1
Avg. Weekly Earnings	Dollars	$354.35	$334.15
Avg. Weekly Hours	Hours	41.3	40.9
Avg. Hourly Earnings	Dollars	$8.58	$8.17
Meat Processing			
Total Employees	Thous.	72.4	72.7
Production Workers	Thous.	53.8	53.7
Avg. Weekly Earnings	Dollars	$362.80	$353.82
Avg. Weekly Hours	Hours	40.0	39.8
Avg. Hourly Earnings	Dollars	$9.07	$8.89
All Manufacturing			
Total Employees	Thous.	18,434.0	19,412.0
Production Workers	Thous.	12,530.0	13,310.0
Avg. Weekly Earnings	Dollars	$354.08	$373.63
Avg. Weekly Hours	Hours	40.1	40.7
Avg. Hourly Earnings	Dollars	$8.83	$9.18

Source: American Meat Institute

Wages in meat packing and processing depend on several key variables including plant location, type of company, size of establishment, and whether or not the workers are unionized. The following data, taken from a 1984 U.S. Department of Labor survey, summarize the effects of the

aforementioned variables. Overtime pay is not included in the data. Further the average hourly earnings do not precisely correspond to those found in the preceding table due to survey and sample differences.

Average Straight-Time Earnings and Percentage Distribution of Production Workers in the Meat Packing and Processing Industries, June 1984

MEAT PACKING—AVERAGE HOURLY EARNINGS[2]

Region[1]	Percent of Production Workers	All Establishments	Type of Company		Size of Establishment		Labor Contract	
			Multi-plant	Single Plant	50-499 Workers	500+ Workers	Majority Covered	Not Covered[3]
Mid West	45%	$8.41	$8.56	$7.41	$7.49	$8.70	$8.91	$7.11
Great Lakes	15	8.31	8.52	7.87	7.90	8.58	8.71	7.20
Southeast	12	6.22	6.75	5.75	6.27	6.17	6.54	5.62
Southwest	9	6.69	7.53	4.91	5.22	7.54	7.47	5.11
Mountain	6	6.97	7.06	6.76	7.53	6.46	N.A.	6.63
Border States	6	6.77	6.85	6.41	6.79	6.76	6.85	6.25
Pacific	5	8.60	8.43	9.21	8.52	N.A.	8.78	7.29
Mid Atlantic	2	7.87	N.A.	7.85	7.31	N.A.	7.31	N.A.
United States	100	7.80	8.14	6.83	7.16	8.14	8.26	6.67

MEAT PROCESSING—AVERAGE HOURLY EARNINGS[2]

Region[1]	Percent of Production Workers	All Establishments	Type of Company		Size of Establishment		Labor Contract	
			Multi-plant	Single Plant	20-99 Workers	100+ Workers	Majority Covered	Not Covered[3]
Great Lakes	28%	$8.76	$9.53	$7.59	$6.01	$9.24	$9.27	$6.39
Mid West	16	7.15	7.91	6.42	6.33	7.28	8.58	6.10
Southwest	14	6.48	7.21	5.78	5.52	6.71	8.58	5.61
Mid Atlantic	13	8.13	7.17	8.41	7.40	8.46	9.20	6.07
Southeast	10	5.70	6.14	5.23	4.95	6.10	7.02	5.18
Pacific	7	9.03	9.50	8.60	9.17	8.97	9.60	7.64
New England	5	7.73	5.97	8.23	6.49	8.31	8.44	6.62
Border States	4	6.14	8.32	5.98	6.12	6.16	6.53	5.29
Mountain	3	6.88	8.91	6.84	6.23	7.24	7.54	6.35
United States	100	7.61	8.12	7.14	6.44	7.96	8.84	5.94

[1]*Mid West—IA, KS, MN, NE, ND, SD; Great Lakes—IL, IN, MI, MN, OH, WI; Southwest—AR, LA, OK, TX; Southeast—AL, FL, GA, MS, NC, SC, TN; Mountain—AZ, CO, ID, MT, NM, UT, WY; Pacific—CA, NV, OR, WA; Mid Atlantic—NJ, NY, PA; New England—CT, ME, MA, NH, RI, VT; Border States—DE, DC, KY, MD, VA, WV.*
[2]*Excludes overtime.*
[3]*None or only a minority of workers covered by labor contract.*
N.A.—Not Available

Source: Reproduced from the American Meat Institute Annual Financial Review of the Meat Packing Industry, 1984.

The American Meat Institute review of the meat packing industry also summarizes wages by occupation. Following is the portion of the AMI wage summary that is relevant to beef packing.

Average Straight-Time Earnings in Selected Occupations in the Meat Packing Industry, by Company Type, June 1984

Occupation	U.S. Average	Multi-plant Companies	Single-Plant Companies	Companies With 50-499 Employees	Companies With 500 + Employees
Beef Dressing (slaughter):					
Backers	$7.05	$8.28	$6.27	$5.65	$7.85
Briskets or flank skinners	7.68	8.24	6.86	7.43	8.23
Eviscerators	7.54	8.27	6.63	7.00	8.42
Hide pullers, machine	7.07	7.67	6.48	6.71	7.82
Rumpers	7.39	7.95	6.82	7.05	8.07
Shackles	7.00	7.61	6.41	6.72	7.68
Splitters, back	7.40	8.34	6.70	6.99	8.46
Sticklers	6.98	7.52	6.46	6.62	7.91
Stunners	6.87	7.53	6.26	6.51	7.82
Beef Cutting (except boxed beef):					
Bonnis, beef	7.70	7.71	7.69	7.98	7.46
Break-up workers	7.11	8.14	6.46	6.52	8.18
Beef Cutting (boxed beef):					
Baggers	7.52	7.88	5.58	5.62	7.90
Boners, boxed beef	7.99	8.12	7.41	8.17	7.93
Saw operatns, boxed beef	8.17	8.38	7.49	8.43	8.12
Trimmers, boxed beef	7.41	7.63	6.40	6.53	7.57
Vacuum packing machine operators	7.19	7.47	6.40	6.20	7.50
Other workers:					
Maintenance workers, gen. utility	8.85	9.23	7.19	7.90	9.41
Cleaners, night	7.76	8.39	6.28	6.80	8.49
Power truck operators	7.06	7.73	6.10	6.75	7.72
Shipping packer	8.45	8.67	7.25	7.38	8.68
Truckdrivers	7.25	7.76	5.95	6.52	7.69
	8.08	9.01	7.63	7.79	8.87

Source: American Meat Institute.

As mentioned above, beef packing is a low profit margin industry. The earnings to sales ratio is quite low for all classes of packers. Other relevant ratios are the earnings to assets and earnings to net worth ratios, which are summarized on the following page for 48 reporting meat processors and the various classes of packing companies. It is worth noting that the earnings to assets and earnings

to net worth ratios of large packers improved in 1984, while the smaller packer's ratios were less in 1984 than in the previous year.

Earnings Ratios, 1983-84

Company Classifications	Earnings to Sales		Earnings to Assets		Earnings to Net Worth	
	1983	1984	1983	1984	1983	1984
Meat Packing			Percent			
14 National Packers	.56%	.67%	3.20%	3.99%	6.93%	8.05%
37 Regional Packers	1.17	1.17	8.09	8.16	14.61	15.00
49 Local Packers	1.48	1.32	8.64	6.86	14.89	12.13
100 Company Average	.70	.78	4.10	4.74	8.57	9.38
Meat Processing			Percent			
48 Meat Processing Co's	2.65%	2.97%	7.17%	8.40%	10.49%	12.81%

Source: American Meat Institute

The asset structure of small packers is somewhat different than that of the larger national and regional firms. In particular, current assets comprise a larger portion of total assets for smaller companies. Also, over 50% of the current assets of national and regional firms are receivables, while receivables account for only 36% of the smaller companies' current assets. The current ratio (ratio of current assets to current liabilities) tends to be somewhat greater for local packers than for national companies. In 1984, the local packers reporting to the AMI had an average current ratio of 3.03, while the 14 reporting national packers' current ratio was only 1.83. The AMI data on current assets and current liabilities are reproduced on the following page.

Percentage Breakdown of Current Assets, 1984

Item	Meat Packing Companies				Meat Processing Companies
	National	Regional	Local	Total	
No. of Companies	14	36	49	99	48
Inventory	40.1%	34.9%	24.0%	30.6%	42.0%
Receivables	52.1	50.4	35.5	51.2	40.5
Other	7.8	14.7	40.5	18.2	17.5
Total Current Assets	100.0	100.0	100.0	100.0	100.0
Current Assets as % of Total Assets	47.3	59.8	61.2	49.7	43.0

Ratio of Current Assets to Current Liabilities, 1983-84

Company Classifications	1983	1984
Meat Packing	Ratios	
14 National Packers	1.68	1.63
36 Regional Packers	1.82	1.78
48 Local Packers	2.70	3.03
98 Company Average	1.72	1.85
Ratio Groups	No. of Companies	
Less than 2	42	46
2 to 3	19	17
3 to 4	9	10
4 to 5	8	5
Over 5	17	20
Total Packers	95	98
Meat Processing	Ratios	
48 Meat Processing Co's.	2.05	2.01
Ratio Groups	No. of Companies	
Less than 2	21	21
2 to 3	10	12
3 to 4	5	5
4 to 5	3	4
Over 5	7	6
Total Processors	48	48

Ratio of Liabilities to Net Worth, 1983-84

Company Classifications	1983	1984
Current Liabilities to Net Worth		
Meat Packing		
14 National Packers	.60	.52
36 Regional Packers	.60	.62
48 Local Packers	.36	.36
98 Company Average	.60	.53
Meat Processing		
48 Meat Processing Co's.	.30	.33
Total Liabilities to Net Worth		
Meat Packing		
14 National Packers	1.17	1.02
36 Regional Packers	.81	.84
48 Local Packers	.72	.77
98 Company Average	1.09	.98
Meat Processing		
48 Meat Processing Co's.	.46	.53

Source: American Meat Institute

Further insight into the financial structure of slaughterhouses and processors can be obtained by examination of the ratio of net worth to total assets. Liabilities are used to finance a larger percentage of assets in the large packing plants, while smaller firms tend to have a higher ratio of net worth to total assets. Data from the packers and meat processors included in the AMI review are as follows:

Net Worth as Percent of
Total Assets, 1983-84

Company Classifications	1983	1984
Meat Packing	Percent	
14 National Packers	46.1%	49.5%
36 Regional Packers	55.3	54.4
49 Local Packers	58.1	56.5
99 Company Average	47.9	50.5
Percentage Groups	No. of Companies	
Less than 40%	30	37
40 to 50%	19	14
50 to 60%	11	13
60 to 70%	7	8
70 to 80%	8	11
80 to 90%	12	9
Over 90%	8	7
Total Packers	95	99
Meat Processing	Percent	
48 Meat Processing Co's.	68.4%	65.6%
Percentage Groups	No. of Companies	
Less than 40%	11	12
40 to 50%	5	5
50 to 60%	7	5
60 to 70%	8	10
70 to 80%	9	7
80 to 90%	5	8
Over 90%	3	1
Total Processors	48	48

Source: American Meat Institute

As has already been mentioned, slaughtering costs, as reported to the AMI, make up a smaller percentage of the total sales dollar for the larger national and regional

firms than for the small local packer. This is evidence of economies of scale in beef packing.

The most comprehensive report on the effects of plant size on per-head slaughtering costs is Cothern, Peard and Weeks (1978) in their study on beef packing in northern California. Although the publication is somewhat dated, it still provides valuable information with regard to the extent of economies of scale in beef packing. The study was designed to determine the average costs of beef packing in northern California, and therefore the numbers reported should not be interpreted as estimates of the cost of slaughtering beef today in Montana.

While the initial Cothern, Peard and Weeks study assumes packing plants operate at full capacity, Faminow (1983) extended the analysis to include data for plants operating somewhat below capacity. More recently, Barney (1985) updated the Faminow data with a price index to accommodate cost increases attributable to inflation, but no attempt was made to rework the study to take into account recent changes in technology or relative input prices. Therefore, the following data are only to provide the reader with an idea of the extent of economies of scale in beef packing, and not to suggest that the actual per-head slaughtering costs in any particular plant (such as Midland or YBP) will be equal to the numbers shown. The results of the studies are as follows. The lower per-unit costs associated with larger plants illustrate the pervasive economies of scale in beef packing.

Estimated Average Costs of Cattle
Slaughtering for Various Plant Sizes

Plant Capacity Utilized	112,500 Head/Year		206,250 Head/Year		562,500 Head/Year	
	Output	Avg.Cost	Output	Avg.Cost	Output	Avg.Cost
50%	56,250	$51.86	103,125	$44.40	281,250	$37.29
60%	67,500	49.97	123,750	42.72	337,500	35.82
70%	78,750	48.63	144,375	41.52	393,750	34.76
80%	90,000	47.60	165,000	40.63	450,000	33.98
90%	101,250	46.82	185,625	39.93	506,250	33.36
100%	112,500	46.18	206,250	39.37	562,500	32.87

Source: Barney, Lloyd D. "Montana and International Meat Markets: What's the Beef?" Montana Business Quarterly. Winter 1985.

As mentioned, this chart on cattle slaughtering costs does not include adjustments for technological improvements. From examination of financial statements from large packers (500,000+ animal kill), it appears that the per head slaughter cost in some cases is as low as $24-$25 per head for facilities operating at maximum capacity.

From the above data it is clear that to be competitive a slaughterhouse should attempt to operate at or near its capacity. This points out the importance of a stable supply of cattle in order to consistently achieve the lowest possible average cost of production. Large seasonal fluctuations in the availability of cattle could prove to be quite costly to the packer, who would be forced to either operate below capacity or to pay transportation costs to bring in cattle from other states.

SUMMARY

It is difficult to obtain data from meatpacking companies in the YBP and Midland comparable size facilities. However, the American Meat Institute conducts a annual summary of the meatpacking and meat processors industries through a survey. The 1984 survey is summarized in this chapter and the results have been reported throughout this study. A summary of the report appears below:

- meatpacking is a very low profit margin industry as a percentage of sales with national packers having a .67% return regional packers a 1.17%, and local packers a 1.31% return;
- the largest single operating expense for meatpacking is wages and salaries which has declined for the third year in a row through 1984;
- the average earnings to net worth ratio for the meatpackers industry is 9.38% while the average earnings to net worth ratio for the meat processing industry is 12.81%, meaning the meat processing industry participates in the higher profit margins from the retail consumers of red meat;
- the average meatpacker has a debt to equity ratio of approximately one to one.

In comparing the costs of slaughtering between different sizes of meatpacking facilities it is quite apparent that the larger plants (500,000 plus annual slaughter) are the most cost effective. A summary of the effects of the economies of scale in cattle slaughtering shows the following estimated average costs of slaughter per head for various plant sizes:

AVERAGE SLAUGHTER COSTS PER HEAD

Plant Capacity Utilized	112,500 Head/Year	206,250 Head/Year	562,500 Head/Year
50%	$51.86	$44.40	$37.29
100%	$46.18	$39.27	$32.87

Basically this shows that a facility such as Midland, operating at 100%, would still have a 40% higher per head slaughter cost than the largest packing plant in the table. It is important to remember that for various reasons described in this study, the Midland plant could not operate at capacity, and there are facilities much larger than 562,500 annual slaughter. This cost difference could potentially be much higher, certainly high enough to allow large out-of-state meatpackers to pay freight in and out of Montana and still enjoy a cost advantage.

CHAPTER 12

ECONOMIC AND SOCIAL IMPACT OF A SLAUGHTERHOUSE ON LOCAL AGRICULTURE RELATED INDUSTRIES

An operational slaughterhouse will obviously have a positive impact on the economy in Billings and surrounding communities. Some of the benefits to the local economy are direct and readily identifiable. For instance, the Billings Rendering Company closed on April 1, 1986. In the past this company has processed the bones and offal from the Yellowstone Beef Processors plant near Laurel. The plant ceased operation due to the lack of a stable supply of rendering materials and the soft market for the plant's output. The plant will continue to act as a collection point for bones and scraps from local custom slaughtering operations. However, Mr. Frank McMahan, plant manager, has stated that if Yellowstone Beef Processors were to reopen, it would be extremely likely that the Billings Rendering Company would resume processing.

Other agriculture related industries which might benefit, albeit indirectly, from the reopening of a local packer include the feedlots, ranchers, and possibly even farmers engaged in the production of feed. The markets for cull cows and fat cattle are quite competitive and, as a consequence, the opening of any individual slaughter facility will not have a dramatic impact on the live weight price of cattle. If Midland or Yellowstone Beef Processors were to reopen, ranchers should not expect a dramatic hike

in live beef prices. However, minor benefit could accrue to local feeders and ranchers, primarily because the costs of transporting live beef from Montana to an out-of-state buyer could be avoided.

There are still many skilled workers in Yellowstone County that are either unemployed or underemployed as a result of the recent packing plant closures in Billings. From conversations with the local union representing the meatpacking workers, a stable base of workers is available for a plant reopening. These workers would directly benefit as a result of the reopening of one of the local slaughterhouse operations. Presumably, when put back to work, these individuals would increase their consumption spending, with benefits accruing to local retail outlets and service industries.

A recently completed study by Brester, Faminow and Benson (1986) presented estimates of impact multipliers which measure the total change in economic activity in Montana resulting from some exogenous event, such as the opening of a meat packing plant. The results of their study are both informative and interesting, but they must be interpreted with care. A crucial assumption of the model used in their study is that there is zero excess capacity in the region; all factors of production are fully employed. Hence, the multipliers calculated by Brester, Faminow and Benson measure the MAXIMUM effect of any given exogenous change. Actual effects are likely to be somewhat

less than the impact multipliers reported in the study. Still, it is clear from their work that meat packing is an industry which can have a significant impact on Montana's economy. To be specific, the employment multiplier reported in the study is 7.71. This multiplier means that the addition of one job in the meat packing industry leads to 6.71 jobs in other sectors. Of the 494 sectors considered in their study, there were only two which had larger employment multipliers than the meat packing industry. The output multiplier is calculated to be 2.49; an additional dollar's worth of output in the meat packing industry generates $1.49 in output in other industries. As with the employment multiplier, only two other industries had larger impact multipliers. The reported income multiplier is 4.15; an additional dollar's worth of income in meat packing leads to $3.15 income in other sectors.

SUMMARY

As with any industry, there are throwoffs to other interacting industries in terms of employment and revenue. Obvious beneficiaries of a slaughterhouse would be cattle producers, trucking/transport companies, and grocery employees. A study completed by faculty staff members at Montana State University estimated that the employment multiplier for meatpacking would generate 6 to 7 jobs in related industry sectors for every job at the meatpacking facility when there is "zero excess capacity" in the immediate locale. Obviously, the unemployment in the Yellowstone Valley in particular means that there is "excess capacity".

It would be difficult to determine the absolute effect on employment generated by a Montana meatpacker, but it is the Project Manager"s opinion that the factor would be substantially less than the 7.71 employment multiplier in the Brester, Faminow, Benson (1986) study.

A reopening of a Billings meatpacker will not provide dramatically higher live weight cattle prices to the cow/calf producer or cattle feeder. However, a market for culled cattle would exist which would allow the producer or feeder to benefit from a decline in loss due to cattle mortality and a lower freight charge for a small portion of the culled cattle.

CHAPTER 13

A "POTENTIAL" MEATPACKING PLANT

Background

Per the list of services to be performed for this study was the general assessment of regarding the overall financial feasibility of locating and profitably operating a slaughterhouse facility in the state of Montana.

As has been constantly pointed out, the meatpacking industry is in the throes of declining demand for the industry's product and consolidation of many industry participants to a handful of large national packers. Some of these larger packers have facilities in the states surrounding Montana. Chapters 9 and 11 have described these packers and some industry averages in regards to markets, slaughter capacities, and financial performance.

If a meatpacking facility is to survive financially in Montana it must be solidly based upon the following fundamentals:

1) An ownership/management team of excellent credentials must be in place to operate the facility.

2) While a facility does not have to be "state-of-the-art", it should be modern enough to at least operate a K & D department with a labor efficiency of 1.5 to 2 head per man hour.

3) Adequate working capital must be insured to allow the facility to take advantage of those periods in the year when the live weight prices of animals is low and profit margins are high.

4) A constant availability of cattle is maintained to allow the facility to operate at or near designed capacity for most of the year.

5) An "awareness program" is designed to help a Montana meatpacker market red meat products on an in-state basis. The consumer needs to know that regardless of potential differences in retail price, there is a meat product produced and processed in-state.

6) A limited amount of red meat sales from fed cattle is desired, so the facility must combine the efficient facility operation with a marketing program to assist both in-state and out-of-state consumers differentiate the choice and prime red meat cuts as unique to that origin or facility. A fed cattle slaughter of 20 to 30 head per day in the first year is expanded to 50 to 60 head per day in the third year of projected operations.

OPERATING PARAMETERS OF A POTENTIAL PACKING FACILITY

The reader of this study should by now understand that the meatpacking industry is primarily a "supply driven" industry. A packing plant is always going to be operated on the basis of live animal availability for slaughter and more often than not will be a "price taker" in both the cost of the live animal and in the revenue generated from the processed animal. Excluding "specialty" red meat markets and those companies that manufacture processed meats which will be defined as "processors", a meat "packer" operating in a commodity operation only, can add very little "value" to the homogenous red meat. The meat "packer" is only interested in maintaining a profit margin between the cost of slaughter and the revenue generated. With the basic inability to control the live animal cost and the red meat markets the packer is forced to grow more cost efficient and frequently that means larger in slaughter capacity. This is the basic reason for the transition in the meatpacking industry mentioned in Chapter 4 at the start of this study.

If Montana is to have a meatpacking plant, two simple rules must be adhered to:

1) "Remember who you are and where you are", and

2) "Remember to walk before you even attempt to run".

At the risk of being overly simplistic, these "rules" will define the basic goals and operating parameters of the facility.

Annual Slaughter Capacity and Markets

This section will deal with the optimal size of the facility. When considering optimal size, both the supply of live animals and the markets for the red meat product are considerations. From Chapter 7 which dealt with an analysis of cow/bull availability for slaughter, a plant which is located in Billings could maintain a consistent supply all year of cows/bulls if the slaughter rate was approximately 225-235 head per day maximum. Also, an assumption has to be made that a local consumer or local HRI market will absorb red meat from 50 to 60 head per day of slaughtered fed cattle in the third year of operation.

If an alternative meatpacking facility is to be considered other than the two facilities in the Billings area, a recommendation would not be made to have such a high concentration on cow/bull slaughter as a percentage of daily slaughter. The boneless cow/bull red meat market is just too competitive to justify a new facility being constructed. Therefore, if a facility outside of Billings is considered, a program must be instituted to allow the marketing of more fed cattle processing. This is the "specialty markets" which were mentioned previously in chapter 8. Also, the cow/bull availability model was

designed around the Yellowstone Valley only. Alternative sites would be designed around a different availability scenario depending upon geographical location and cow/bull inventories.

A specialty market is a market where the attempt is made to differentiate a particular red meat cut from the homogeneous nature of red meat. Chapter 6 has noted that basically "red meat is red meat" to a consumer. In most cases, various forms of packaging or labeling is the only manner by which this differentiation can take place. For example, if a particular cut of red meat is to be denoted as produced and processed in Montana, then the package must clearly demonstrate that. This is important for either in-state or out-of-state consumers.

The question may now arise...."why does a differentiation in red meat products become of more value to a meatpacker or meat processor?" Quite simply, it is to allow that meatpacker or meat processor to charge a higher price per pound of red meat from the consumer. This is an attempt to move away from the "Yellow Sheet" and from being a price taker. Remember, that on a purely commodity meatpacking operation for fed cattle or cows/bulls, the facility operator is taking in revenue only what the market "will bear". On the other hand, if the cost of slaughter does not increase, but the revenue from red meat sales does increase, the profit margins correspondingly increase.

Those companies which have succeeded in producing a

meat product that allows direct access to the retail meat consumer market, the meat "processors", participate in those higher profit margins. Chapter 11 alluded to the higher profit margins for meat processors. The following table describes that return as a percentage of sales.

EARNINGS AS A % OF SALES

	1983	1984
National Packers	.56%	.67%
Regional Packers	1.17%	1.17%
Local Packers	1.48%	1.32%
Average	.70%	.78%
Meat Processors	2.65%	2.97%

SOURCE: AMI

The AMI's description of meat processors is probably more defined than what this study describes is a "specialty market". For the purposes of this study, the specialty market includes both manufactured meat products and distinct red meat cuts. The purpose of pursuing the specialty market is to provide a greater demand for an in-state meatpacker's fed cattle products. In looking at a potential meatpacking plant, the assumption will be made that these markets can be accessed eventually, and the feasibility of a meatpacking facility will not be determinant upon immediate access.

The Montana Department of Agriculture has just released a study on the foreign market potential for

Montana beef. This is the first step to identifying this foreign market or "specialty market". The domestic "specialty markets" can only be identified by direct sales efforts to potential consumers...the "Beef in the briefcase" type of sales effort.

Returning to optimal size requirements for a meatpacking facility, the following parameters need to be identified:

> One carload (truckload) of boneless beef products is 40,000 pounds.
>
> It takes an average of 120 to 125 cows/bulls to make a carload of boneless beef.
>
> 24 to 30 head of fed cattle can be processed for the local consumer market initially.
>
> A future "specialty market" outside the local market is unknown presently but may allow for an additional 30 head per day of fed cattle processing.

The optimal capacity for slaughter should initially allow for a carload of boneless beef to be put together for shipping on every other day. This means an initial slaughter rate of 60-65 cows/bulls would allow this every other day freight. The local consumer market will take a period of time (90 to 150 days) to develop to a 20 head per day of fed cattle processing. This means an initial slaughter rate of 10-15 fed cattle. If a 7 1/2 to 8 hour work day for k & b operations is assumed, this means an initial slaughter speed of 10 head per hour the first day of operation. Once labor is familiar with the operation the speed should be increased to 14 to 16 head per hour.

The eventual first year goal would be a carload of boneless beef shipped every day which would be 120 to 125 head of cows/bulls slaughtered daily. Also, the local consumer market and the specialty markets will allow 30 head of fed cattle daily slaughter in the first year increasing to 60 head by the third year of operation.

The maximum capacity of this facility would be in the 72,000 to 75,000 head of annual slaughter range. Current construction techniques would allow for a modular or expandable facility as the need arose if a new plant was constructed.

A slaughter capacity is built around two areas. The killing and dressing room(s) coupled with the boning/boxing/shipping room(s) would be considered as one determinant of capacity. The second determinant would be the amount of cooler space for carcasses and freezer space for boxed red meat inventory. The latter determinant can be modified much easier than the former. It is important to build the K&D department and the bone/box/ship department to the maximum capacity desired on an initial basis. As more cooler or freezer space is desired, they can be constructed to handle a larger daily slaughter.

Type of facility and location

The facility would be a cow/bull and fed cattle mix of about 3 to 1 in favor of cow/bull slaughter cattle. The location of the plant would depend upon many factors. For simplicity, this study will assume the labor and business

climate is the same in all geographical sections of Montana. The two variables which would be a determinant for location would be supply of available cattle and access to transportation for both live cattle and red meat products. Chapter 7 listed the auction markets in Montana. A limited fed cattle slaughter would require a feedlot within 75-100 miles maximum of the facility. Also, one other source of information on availability would be the highest inventory of all cattle and calves on a county by county basis. The following table lists the relative rankings of Montana counties as to the 10 highest totals of cattle/calves.

ALL CATTLE/CALVES, JANUARY 1, 1984
RANKING OF COUNTIES IN MONTANA

Rank	County	Number
1	Beaverhead	185,200
2	Big Horn	136,200
3	Fergus	133,200
4	Madison	125,500
5	Yellowstone	120,000
6	Custer	95,600
7	Cascade	95,700
8	Phillips	93,800
9	Blaine	90,700
10	Gallatin	90,300

SOURCE: MONTANA CROP & LIVESTOCK REPORTING SERVICE

A meatpacking facility in Montana would likely have to be operated primarily or closely near the Interstate Highway System with a proximity to an inter-state railroad carrier as a secondary consideration. This would limit the

potential various locations in Montana to the larger metropolitan areas.

Management and Capital Needs

As has been stated previously, from a start-up situation, management with no facility is preferable to a facility with no management. A quality management team will be able to make such decisions as locations, markets, labor needs, etc. prior to a facility being constructed. A facility in the range of 72,000 to 75,000 head annual slaughter will require no more than two quality managers...one for plant operation and one for financial and marketing controls. Coupled with these in-house managers would be a team of financial, legal, banking, and labor talent. This talent can be retained on an "as-needed" basis.

From various sources, including several individuals in Montana who have begun to examine an investment in a meatpacking facility, it appears that a minimum investment for a complete new facility creation would be approximately $1,750,000 to $2,000,000 for a 300 head per day capacity plant, excluding expanded cooler/freezer capacity beyond 200 head per day slaughter. This would not include the working capital for overhead or cattle purchases which could vary from $700,000 to $1,500,000 on an ongoing need basis. This would also not include an inedible rendering system which would cost between $300,000 and $500,000. Inedible rendering would only become cost efficient as the

slaughter rate exceeded 200-225 head per day. A projected daily slaughter for year 2 and 3 (Appendixes A11, A12) would require a rendering system. This complete new facility would include the land, buildings, equipment and water disposal system. Again, this would not include the various expenses of site evaluation, filings with state and federal authorities for permits, interim start-up costs, etc.

As mentioned before, facilities can be constructed to expand slaughter capability which would allow further investment only when the consistent income structure would allow a return on that investment.

Projected Operations

Appendixes A10-A15 show projected income statements and cashflow statements for a potential packing plant for 3 years. Appendix A13, the cashflow statement for the first year, shows a capitalization structure as follows:

Investment in Property, Plant and Equipment

Equity (not shown)	$ 750,000
Mortgage Loan	1,000,000
Total	$1,500,000

Working Capital for Startup Operations

Loan for cattle purchases	$ 650,000
Loan for overhead expense	200,000
Total	$1,050,000

The slaughter rate and mix is as follows:

Year	Daily Slaughter Cows/Bulls	Fed Cattle
1 (Appendix A10)	120	30
2 (Appendix A11)	150	50
3 (Appendix A12)	200	60

Pricing assumptions were as follows:

Live weight cows/bulls	$33/100 lb.
Live weight fed cattle	$55/100 lb.
Red meat (boneless cow/bull)	$1.05 lb.
Red meat (fed cattle)	$1.40 lb.

At the risk of being redundant, the computer projections are merely assumptions. They represent a potential outcome from operations. The first year return is probably optimistic with a 1.23% net profit return, as a percentage of sales. Again, the keys to success are a solid, quality management team, a steady supply of cows/bulls, an aggressive marketing program for the fed cattle sales, a facility which uses modern slaughter and processing equipment and corresponding efficient labor costs, and positive market and price factors which are beyond the control of the facility. These factors would include an aggressive nationwide marketing campaign by producers and/or beef retailers to stabilize the declining per capita consumption of beef. An excellent management team will control those keys to success and adapt to the market and prices.

Potential investors in a Montana meatpacking facility have, as of this study, not been specifically identified.

It has been noted that the State of Montana has been approached as being an "indirect" investor through a request that the Montana Economic Development Board (MEDB) provide the debt financing for one of the Billings' facilities. The administrators of MEDB have expressed an interest in a meatpacking facility provided certain assurances as to operations and sufficient appraisals of fixed assets can be provided. These are reasonable expectations for both MEDB and potential meatpacking facility owners/operators.

Given the competitive world of the packing industry, it is the Project Manager's opinion that identifying potential equity investors for a packing facility should emphasize those individuals with a direct or indirect interest in the beef business. These would include cow/calf producers, cattle feeders and feed growers, wholesale and retail grocery operators by-product renderers, etc. Without getting into the question of co-operatives, it appears that for a small Montana meatpacker to operate successfully, an integration of certain aspects of supply and demand in the beef business must work in tandem, and potentially share in bottom line profits and losses from the operations. It appears that the age "of going it alone" for small meatpackers is over, especially in Montana where "individualism" is both respected and is a hindrance for the beef industry from the cow/calf producer to the meatpacker.

A "potential" meatpacking plant which could be considered as an alternative to either of the existing facilities in the Yellowstone Valley is a possibility. This potential plant would have the following characteristics...

- management is located and actively involved in design and construction prior to operation
- location is near the interstate highway system with access to a railhead if possible, near a sizable cow/bull population and within 100 miles of a feed lot
- startup cost is approximately $1.75 to $2 million with an additional $500,000 needed for future expansion; working capital initial need is approximately $1 million plus
- slaughter capacity approaches 70,000 to 75,000 maximum on a yearly basis
- along with the slaughter operation is a differentiated red meaat cut from fed cattle slaughter, associated with the facility

Appendixes A10-A12 show three hypothetical years of operation for this facility and appendixes A13-A15 show three hypothetical cash flow scenarios. Because of the limitations on the YBP facility, this "potential" meatpacking facility would allow the plant's investors to take advantage of larger kill rates than the YBP and corresponding higher profit margins. Also, the Montana cow/calf producers would have a larger demand for both cull cows/bulls and fed cattle in a larger, new facility.

It may boil down to a question of initial money needs, ie., the YBP facility could probably restart operations for approximately $350,000 in new fixed investment, while this new "potential" facility will require approximately $1.75 to $2 million in startup fixed capital investment.

However, the ability to have an inedible rendering operation, and take advantage of a higher slaughter rate (and corresponding higher profit margins) and better profit margins on drop credits in a new facility is contrasted with the limiting factors affecting the operations of YBP noted in Chapter 6.

Therefore, it is the Project Manager's opinion that although the fixed capital needs are higher for a new facility, this new facility would provide better debt service and return on equity investment than the YBP facility.

CHAPTER 14

STUDY SUMMARY

To begin to understand the current conditions prevalent in the meatpacking industry, a brief examination is necessary of the past 65 years in the industry in a chronological basis. The dates are approximates only...

Year	Industry Conditions
1920	4 or 5 major packers control the industry.
1920-30	The Federal government steps in with antitrust powers and meat inspection and grading begins.
	The industry splinters into the stripped down larger packers and hundreds of local packers and technological complacency grows with captive local markets.
1960-70	A revolution in the meatpacking industry takes place as evidenced by the growth of Iowa Beef Processors.
	New packing plants improve slaughter efficiency and achieve lower labor costs. Also, new plants are relocated away from the large metropolitan population centers and more near the cattle feeding operations in Texas and the Midwest.
	Boxed beef operations start replacing prior practice of shipping carcasses to grocer. Shelf life of beef goes from 7 days to 30 days meaning beef can now be shipped to distant markets.
	Consolidation to larger, more cost efficient meatpackers in the industry begins.
1975-80	Per capita red-meat consumption hits highest levels and due to growing health concerns and an increase in poultry/fish/dairy marketing efforts, the consumption pattern for beef declines.

1980-on	Per capita beef consumption declines 20% from 1976, while per capita chicken consumption goes up 35%.
	More industry consolidation with only 15-16 major beef packers selling nationwide.
	Cow/calf producers and meatpakcers suffer effects of 20% + prime interest rate in 1981-82 period. Shake out in beef industry begins and continues to the present.
	General agriculture capital market values decline 20-50%.
1985-86	Beef industry begins recognition of red meat marketing problems.

The meatpacking industry today is a high sales volume low profit margin as a percentage of sales industry, with annual returns in the .7% to 1.3% net profit/sales. This commodity oriented business has very little breathing room for the following ....

- Poor management decisions in regards to inventory purchases and slaughter operations
- A high cost of working capital
- Bargaining power with major grocers

Due to a national red meat market quotation service and the power of the large national grocers, the meatpacking industry is a supply driven business... meaning prices are taken and not given in the packing industry. A general, commodity type meatpacker worries about two things...

1) A steady supply of live animals at the door of the stunning/dispatching chute, and

2) Keeping the live weight cost and slaughter processing cost under the revenue from red meat sales.

Providing the meatpacker is successful at those two items, a profit is made, and for the larger packers with sales in the $500 million plus annual range, that profit can be a significant return on equity.

The purpose of this study was to determine how Montana fits into the meatpacking industry. Obviously, as the major packers move to larger, more cost efficient slaughter operations, coupled with a decline in the red meat market over the last 10 years... there are substantial barriers to entry for a large, new meatpacker. If a start-up is contemplated, the current overcapacity in the industry favors the start-up being a small meatpacker with targeted markets for its red meat products.

The following is a summary of the Midland, YBP, and an alternative meatpacking facility.

Midland Foods, Inc.

The packing facility is old (1920 on) with various renovations in the last 20 years. If one had to describe a casualty of the last 20 years of competition in the industry - this is a classic example.....

- An old, fairly inefficient plant
- Declining markets for product (IBP took Buttrey's away from Midland in 1982)

- Unstable supply of cows/bulls
- And now, in very difficult financial position
  - Assets of $800,000 and liabilities of $3,000,000
- No identifiable management team

In its current condition, it is not financially feasible to operate.

Yellowstone Beef Processors

The packing facility is about 8 years old. It is a small (25,000 annual kill plant) facility and has only been operated for about 2 1/2 of its 8 years in existence. There are both positives and negatives to the facility...

Positives: Fairly new plant; present financial condition seems adequate; Billings location is advantageous

Negatives: No management team identified; capital needs, while substantially less than Midland, are still in the $350,000 area for renovation; disposal system is obsolete

As the study pointed out...if a good management team was found, if renovation was possible financially, if a small fed cattle kill could be sold to local markets, then it is financially feasible to operate.

Alternative Packing Facility

If an investor(s) was willing to construct another packing facility, the parameters for potential needs and success would be as follows...

- An initial capital cost of $1.75 to $2 million with future investment of up to $500,000 to expand rendering and cooler/freezer capacity

- Initial daily slaughter rate of 100 to 120 cows/bulls and 20 to 30 fed cattle

- Eventual daily slaughter goal of 200 to 225 cows/bulls and 50 to 60 fed cattle slaughter

- A solid management team headed by 2 individuals... one in charge of slaughter operations and one in charge of finances, cattle buying, and fed cattle red meat sales

- An active effort to establish a "Made in Montana" red meat cut

- Located near interstate highway and in top 8 to 10 cattle producing counties, and within 75 to 100 miles of a feedlot

It may be an unpopular statement to make, but it appears that if a start-up of a meatpacking facility is contemplated in Montana then...

"first, you must think small, and after succeeding, you continue to think small".

An attempt at a start-up must insure a constant operation by requiring...

- an "acceptable" level of dollar investment,

- having a constant supply of live animals for slaughter availability,

- a delineated red meat "Montana" product,

- that the dollar check off program (or similar programs) instituted by the live animal producer raises red meat awareness

- first and foremost, a high quality management team.

Two general thoughts come to mind when summarizing the meatpacking industry and the state of Montana in particular. These will be titled appropriately..."markets and money". First, "markets"...

- Chicken is not the "enemy". If the beef industry believes that projects such as the check off program being proposed by the cattle producers will reverse the consumption trends to the 1976 per capita levels, the industry is wrong. Not only wrong, but those dollars set aside for marketing beef will be wasted.

- The goal of marketing beef should be "beef awareness". An awareness program is different from an advertising program. Awareness uses independent spokesmen and women as well as beef industry participants. There have been a number of recent reports extolling the virtues of red meat in acceptable diet conditions from independent researchers, and these reports need wider promotion. Further, an awareness program can fund research into methods by which beef can be more conveniently prepared and served. As it stands now, microwaved prime cut steaks leave something to be desired.

- The goal of beef "awareness" is to stabilize beef consumption, not necessarily to recapture market share, forcing the poultry industry to become more aggressive. If per capita beef consumption in the United States is stabilized, then population growth will cause an overall increase in beef demand. Further, a declining dollar in relationship to foreign currencies will make U.S. beef more competitive overseas.

Second, "money"...

- There appears to be a lack of sufficient private capital in Montana for a meatpacking facility investment. It is possible that the state of Montana, through an entity such as the Montana Economic Development Board will have to be involved in financing either renovation or new construction of a facility. Providing the financial requirements are met for MEDB or a similar agency, this may be a

positive sign...in that it sends a message to both in-state and out-of-state banks, savings and loans, insurance companies, etc...that there are some attractive financing opportunities in Montana.

- Cow/calf producers and cattle feeders should not look for economic salvation from an in-state meatpacker in the form of substantially higher live weight prices. Remember, when they are separate entities, a meatpacker is in an adverse relationship with the cattle producer/feeder. Perhaps, the answer to that relationship is a form of business combination.

CONCLUSION

The question that will be asked after reading this study is... what is the first step for the potential investor or owner/operator of an in-state meatpacker? The answer has been alluded to continually in this study... management needs to be identified first! Whether a retrofit or new construction of a facility is being considered, the management of that facility must be active in that process. Management needs to take an active hand in design and staffing requirements and targeted red meat markets.

A prospective management "team", preferably, will be familiar with the problems and opportunities in the Montana beef market. This management will need to develop the personal relationships needed in cattle buying, red meat marketing, and financing the facility investment. These relationships will not always be friendly, as the competition in an auction market will attest.

Right now, with no in-state meatpacker, the cattle producer is in a poor bargaining position with out-of-state cattle buyers and meatpackers. That transportation charge for live cattle which can reach as high as $30 to $50 per head, is being reduced from the live weight price given to the producer. An in-state packer, while not providing a dramatic live weight price increase, can return some of the freight charge back to the Montana cattle producer. The beef industry is "a big business of small differences". An increase of only $30 per head to a producer can mean the difference between profit and loss.

This study examines the volatile meatpacking industry and the operating history's of the Midland and YBP facilities for the last 6 to 8 years. Further, conversations and meetings were held with those individuals in the beef industry in Montana including past and current owners/operators of meatpacking facilities, cow/calf producers, cattle feeders, agricultural financiers, red meat brokers, state of Montana officials, and individuals with industry interests such as renderers, beef transporters, and unemployed meat cutters. It is obvious that there is substantial desire in Montana to look at the financial feasibility of a slaughterhouse. This study has given some specific recommendations that the Project Manager and the Subcontractors believe are necessary in determining that feasibility.

The one pervasive thought that comes to mind when thinking of a slaughterhouse start-up in Montana is this... failing to reopen a prior facility or failing to construct a new facility is not the worst thing that can happen. Rather, having a reopened prior facility or new constructed facility fail, again, with the corresponding financial and emotional losses, is the worst thing. Following the recommendations in this study will assist the Montana Department of Agriculture and interested parties regarding the financial feasibility of a slaughterhouse facility within Montana.

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- UFCW Union Local 33, Billings, MT.
- Montana Department of Agriculture
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APPENDIXES A1-15

OVERVIEW OF FINANCIALS

As has been noted throughout the narrative discussion of these proforma (projected) financial statements, these projections are based upon a set of variables that may reflect real world assumptions. They are not guarantees of performance, but merely illustrations. They are designed to show fixed and working capital needs (cash flow) for retrofits or initial startups of meatpacking facilities, and potential profits or losses from both market and management performance.

These statements are both simplistic and complex... simplistic in the sense that revenue and expense variables change only on a yearly basis, and complex in the sense that the number of account titles are numerous and detailed.

For example, appendix A1 uses a flat purchase cost by the meatpacker of $33/100 lb. for fed cattle each month for the year of the operating projection. In reality, the purchase cost of live animals to the meatpacker varies significantly over the course of the year as the supply and the physical condition of the live animals vary. Examination of the following three pages show the average live animal quotation price by month at the Public Auction Yards in Billings, Montana for the years 1983 to 1985.

U.S. DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
LIVESTOCK, POULTRY, GRAIN & SEED DIVISION

LIVESTOCK DETAILED QUOTATIONS (ANNUAL)

MARKET
Billings Lvstk Comm Co.
Public Auction Yards
Billings, Montana

YEAR 1983

		JAN.	FEB.	MAR	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT	NOV.	DEC.	AVER. AGE.
SLAUGHTER CATTLE:														
STEERS:														
PRIME 3 4, 900 1100 lb	AG													
PRIME 3 4, 1100 1300 lb.	AH													
PRIME 3 4, 1300 1500 lb.	AJ													
CHOICE 2 3, 500 700 lb	AK													
CHOICE 2 3, 700 900 lb.	AL													
CHOICE 2 4, 900 1100 lb.	AM													
CHOICE 2 4, 1100 1300 lb.	AN													
CHOICE 3 4, 1300 1500 lb	AP													
GOOD 2 3, 500 700 lb.	AQ													
GOOD 2 3, 700 900 lb	AR													
GOOD 2 3, 900 1100 lb	AS													
GOOD 2 3, 1100 1300 lb.	AT													
STANDARD 2 3	AU													
HEIFERS														
PRIME 2 4, 700 900 lb.	BF													
PRIME 3 4, 900 1100 lb.	BG													
CHOICE 2 3, 500 700 lb.	BH													
CHOICE 2 4, 700 900 lb.	BJ													
CHOICE 2 4, 900 1100 lb.	BK													
GOOD 2 3, 500 700 lb	BL													
GOOD 2 3, 700 900 lb	BM													
GOOD 2 3, 900 1100 lb	BN													
STANDARD 2 3	BO													
COWS:														
COMMERCIAL 2 4	CB	3478	3966	4256	4266	4322	4173	4097	4045	3750	3474	3379	3414	38.85
UTILITY 2 3	CD	3670	4206	4497	4433	4412	4310	4226	4153	3869	3561	3437	3465	40.20
CUTTER 1 2	CG	3316	3822	4143	4125	4137	3990	3919	3841	3527	3275	3115	3203	37.01
CANNER 1 2	CH	2900	3419	3671	3832	3800	3703	3644	3550	3246	3038	2838	2841	33.90
BULLS:														
Y G 1 1000 1500	DA	4528	4912	5199	5125	5231	5162	5103	5010	4927	4426	4320	4284	48.52
Y G 1 1500 2100	DB	4678	5138	5343	5231	5304	5330	5234	5172	5069	4562	4404	4347	49.91
Y G 2 1000 1500	DC	4303	4638	4881	4853	4956	4888	4850	4777	4719	4320	4100	4060	46.12
Y G 2 1500 2100	DF	4444	4794	5002	4981	5090	5030	4978	4922	4896	4350	4165	4110	47.30
FEEDER CATTLE:														
STEERS No. 1 Muscle Thickness														
Med. Frame 200 300 lb	EA													
Med. Frame 300 400 lb.	EB	7106	7534	7798	7675						6264	6664	7151	71.70
Med. Frame 400 500 lb.	EC	7072	7497	7710	7506	7594	7550				6261	6612	6984	71.98
Med. Frame 500 600 lb	EO	6781	7047	7171	7038	7044	6995	6519	6125	5825	6018	6342	6680	66.32
Med. Frame 600 700 lb.	EE	6228	6769	6846	6822	6700	6687	6362	6010	5621	5696	6031	6188	63.55
Med. Frame 700 800 lb	EF	6416	6662	6698	6619	6519	6417	6200	5883	5379	5555	5800	6070	62.02
Med. Frame 800 1000 lb	EG	6181	6444	6555	6488	6269	6080	5981	5758	5279	5375	5567	6120	60.08
Med. Frame 1000 1100 lb.	EH							5833	5669					57.48
Lg. Frame 200 300 lb	EJ													
Lg. Frame 300 400 lb	EK													
Lg. Frame 400 500 lb	EL													
Lg. Frame 500 600 lb	EM													
Lg. Frame 600 700 lb	EN													
Lg. Frame 700 800 lb	EO													
Lg. Frame 800 1000 lb.	EP													
Lg. Frame 1000 1100 lb.	EQ													
Sm. Frame 200 300 lb	ER													
Sm. Frame 300 400 lb	ES													
Sm. Frame 400 500 lb	ET													
Sm. Frame 500 600 lb	EU													
Sm. Frame 600 700 lb	EV													

U S DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
LIVESTOCK, POULTRY, GRAIN & SEED DIVISION

LIVESTOCK DETAILED QUOTATIONS (ANNUAL)

MARKET
Billings Lvstk Comm Co.
Public Auction Yards
Billings, MT

YEAR 1984

	MONTH												AVER. AGE.
	JAN.	FEB.	MAR	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	
SLAUGHTER CATTLE:													
STEERS:													
PRIME 3 4, 900 1100 lb. AG													
PRIME 3 4, 1100 1300 lb. AH													
PRIME 3 4, 1300 1500 lb. AJ													
CHOICE 2 3, 500 700 lb. AK													
CHOICE 2 3, 700 900 lb. AL													
CHOICE 2 4, 900 1100 lb. AM													
CHOICE 2 4, 1100 1300 lb. AN													
CHOICE 3 4, 1300 1500 lb AP													
GOOD 2 3, 500 700 lb. AQ													
GOOD 2 3, 700 900 lb. AR													
GOOD 2 3, 900 1100 lb. AS													
GOOD 2 3, 1100 1300 lb. AT													
STANDARD 2 3 AU													
HEIFERS:													
PRIME 2 4, 700 900 lb BF													
PRIME 3 4, 900 1100 lb BG													
CHOICE 2 3, 500 700 lb. BH													
CHOICE 2 4, 700 900 lb. BJ													
CHOICE 2 4, 900 1100 lb BK													
GOOD 2 3, 500 700 lb. BL													
GOOD 2 3, 700 900 lb BM													
GOOD 2 3, 900 1100 lb BN													
STANDARD 2 3 BO													
COWS													
COMMERCIAL 2 4 CB	3452	3980	4145	4219	4123	4231	4156	4065	3812	3658	3352	3510	38.92
UTILITY 2 3 CD	3502	4145	4278	4316	4250	4150	4184	4155	3876	3687	3424	3518	39.64
CUTTER 1 2 CC	3245	3696	3848	3925	3898	3844	3838	3783	3479	3298	3076	3130	35.88
CANNER 1 2 CH	2824	3251	3527	3528	3553	3522	3528	3513	3110	2899	2698	2775	32.27
BULLS:													
Y G 1 1000 1500 OA	4381	4650	5041	5091	4890	4953	4931	4858	4708	4559	4319	4227	47.18
Y G 1 1500 2100 OB	4491	4938	5256	5259	5124	5069	5062	5032	4858	4711	4400	4313	48.76
Y G. 2 1000 1500 OC	4148	4440	4742	4744	4588	4719	4660	4483	4320	4195	3981	3841	44.06
Y G. 2 1500 2100 OF	4219	4578	4908	4953	4785	4788	4822	4660	4464	4323	4075	3980	45.46
FEEDER CATTLE:													
STEERS: No. 1 Muscle Thickness													
Med. Frame 200 300 lb EA													
Med. Frame 300 400 lb. EB	7145	7304	7268	7200					6958	6727	6776	6998	70.47
Med. Frame 400 500 lb. EC	7067	7281	7193	7131	7075	7178		6900	6864	6718	6777	6935	70.11
Med. Frame 500 600 lb. ED	6768	6956	6925	6819	6715	6719	6669	6715	6560	6567	6572	6807	67.33
Med. Frame 600 700 lb EE	6615	6802	6734	6556	6535	6525	6512	6545	6331	6422	6458	6662	65.58
Med. Frame 700 800 lb. EF	6471	6678	6614	6412	6270	6244	6381	6420	6242	6270	6310	6503	64.01
Med. Frame 800 1000 lb. EG	6329	6565	6523	6325	6055	6044	6175	6290	6144	6108	6133	6285	62.48
Med. Frame 1000 1100 lb. EH													
Lg Frame 200 300 lb EJ													
Lg Frame 300 400 lb EK													
Lg Frame 400 500 lb EL													
Lg Frame 500 600 lb. EM													
Lg Frame 600 700 lb EN													
Lg Frame 700 800 lb EO													
Lg Frame 800 1000 lb. EP													
Lg Frame 1000 1100 lb. EQ													
Sm. Frame 200 300 lb ER													
Sm. Frame 300 400 lb ES													
Sm. Frame 400 500 lb. ET													
Sm. Frame 500 600 lb. EU													
Sm. Frame 600 700 lb. EV													

U.S. DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
LIVESTOCK, POULTRY, GRAIN & SEED DIVISION

LIVESTOCK DETAILED QUOTATIONS (ANNUAL)

MARKET
Billings Livestock Comm Co.
Public Auction Yards
Billings, Montana

YEAR 1985

		MONTH												AVER. AGE.
		JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.	
SLAUGHTER CATTLE:														
STEERS:														
PRIME 3 4, 900 1100 lb.	AQ													
PRIME 3 4, 1100 1300 lb.	AH													
PRIME 3 4, 1300 1500 lb.	AJ													
CHOICE 2 3, 500 700 lb.	AK													
CHOICE 2 3, 700 900 lb.	AL													
CHOICE 2 4, 900 1100 lb.	AM													
CHOICE 2 4, 1100 1300 lb.	AN													
CHOICE 3 4, 1300 1500 lb.	AP													
GOOD 2 3, 500 700 lb.	AO													
GOOD 2 3, 700 900 lb.	AR													
GOOD 2 3, 900 1100 lb.	AS													
GOOD 2 3, 1100 1300 lb.	AT													
STANDARD 2 3	AU													
HEIFERS:														
PRIME 2 4, 700 900 lb.	BF													
PRIME 2 4, 900 1100 lb.	BG													
CHOICE 2 3, 500 700 lb.	BH													
CHOICE 2 4, 700 900 lb.	BJ													
CHOICE 2 4, 900 1100 lb.	BK													
GOOD 2 3, 500 700 lb.	BL													
GOOD 2 3, 700 900 lb.	BM													
GOOD 2 3, 900 1100 lb.	BN													
STANDARD 2 3	BO													
COWS:														
COMMERCIAL 2 4	CB	3607	4040	4239	4094	3937	3788	3833	3426	3387	3236	3145	3118	36.28
UTILITY 2 3	CD	3757	4215	4313	4134	4045	3917	3646	3670	3500	3409	3230	3203	37.53
CUTTER 1 2	CG	3397	3819	3905	3775	3755	3631	3425	3456	3305	3080	2976	2920	34.54
CANNER 1 2	CH	2995	3352	3578	3478	3479	3188	3010	3038	2881	2797	2655	2596	30.87
BULLS														
Y.G. 1 1000 1500	DA	4474	4948	5047	4966	4798	4662	4577	4647	4416	4363	4378	4264	46.28
Y.G. 1 1500 2100	DB	4605	5184	5168	5053	4992	4850	4740	4762	4566	4523	4479	4387	47.82
Y.G. 2 1000 1500	DC	4234	4723	4761	4719	4549	4400	4253	4290	4190	4169	4138	3962	43.66
Y.G. 2 1500 2100	DF	4378	4814	4850	4756	4633	4475	4392	4378	4225	4245	4156	4017	44.43
FEEDER CATTLE:														
STEERS No. 1 Muscle Thickness														
Med. Frame 200 300 lb	EA													
Med. Frame 300 400 lb.	EB	7312	7471	7506	7694	7620		7567	7766	7212				75.15
Med. Frame 400 500 lb.	EC	7229	7471	7456	7606	7545	7292	7303	7560	6962	6913	6868	6706	72.89
Med. Frame 500 600 lb.	EO	6939	7067	7049	7106	6982	6838	6975	6988	6569	6642	6836	6605	71.01
Med. Frame 600 700 lb.	EE	6775	6858	6726	6725	6660	6588	6245	6225	6019	6401	6112	6239	66.26
Med Frame 700 800 lb.	EF	6647	6671	6482	6512	6320	6175	5965	6075	5838	6046	6115	5961	63.61
Med. Frame 800 1000 lb.	EG	6452	6558	6303	6294	6085	5906	5710	5856	5531	5840	5857	5806	61.17
Med Frame 1000 1100 lb.	EH							5505	5544	5338	5696	5705	5653	59.20
Lg Frame 200-300 lb	EJ													
Lg Frame 300 400 lb.	EK													
Lg Frame 400 500 lb.	EL													
Lg Frame 500 600 lb.	EM													
Lg Frame 600 700 lb.	EN													
Lg Frame 700 800 lb	EO													
Lg Frame 800 1000 lb.	EP													
Lg Frame 1000 1100 lb.	EQ													
Sm. Frame 200 300 lb	ER													
Sm. Frame 300 400 lb.	ES													
Sm. Frame 400 500 lb.	ET													
Sm. Frame 500 600 lb	EU													
Sm. Frame 600 700 lb	EV													

Within the four cow designations... commercial, utility, cutter, and canner... the live weight price can vary as much as $5 to $8 per 100 lb. over the course of a year. Obviously, it is to the meatpacker's advantage to pay less for live animals. While it would be difficult to obtain monthly industry profitability statistics on meatpackers, it is assumed that those months of lower live weight prices provide the greatest profit opportunity for the meatpacker.

It is certainly no secret to the Montana cow/calf procuder that prices paid in 1985 for cows/bulls were down $2 to $3 per 100 lb. from 1983. During the course of this study (March to June, 1986), varying estimates on the supply of dairy cattle directed to slaughter in 1986 and 1987 through a federal government program has caused rapid shifts in live weight prices. These prices are never static.

The point of this being to have the reader of this study take the projected financial statements for what they are... best guesses as to a possible operating scenario... in this case, one scenario out of many.

Appendix A1 is one year of possible operations for the Midland facility. A loss of approximately $100,000 is represented as a "best case" scenario for Midland. For reasons described in Chapter 5, it is not financially feasible to operate Midland in its current financial and physical condition. Appendix A2 describes a total capital need of approximately $2.1 million for prior debt retirement and property and equipment improvements, and a working capital need of approximately $2.6 million for operations. Carrying the debt service on this capital need is improbable. Only one year of operations is shown due to the eventual decline from the initial capital position based upon the projected operating scenario.

APPENDIX A-1

Montana Packing Plant
Projected Income Statement
Midland Packing

	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87 - Apr 87	May 87	Jun 87	Jul 87	
Sales-Cow/Bulls	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	2,786,616	33,439,392
Sales-Fat Cattle	382,400	382,400	382,400	382,400	382,400	382,400	382,400	382,400	382,400	382,400	382,400	3,668,800
Sales-Hides	129,200	129,200	129,200	129,200	129,200	129,200	129,200	129,200	129,200	129,200	129,200	1,550,400
Sales-Offal	91,200	91,200	91,200	91,200	91,200	91,200	91,200	91,200	91,200	91,200	91,200	1,094,400
Total Sales	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	3,389,416	39,712,992
Cost of Goods Sold												
Begin Inventory-C/B	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	2,904,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	2,772,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	30,360,000
-F/C	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	3,168,000
Ending Inventory-C/B	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	3,168,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	2,508,000	30,096,000
Cost Livestock-F/C	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	3,168,000
Freight - In	42,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	468,000
Freight - In F/C	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	408,000
Freight - Out	39,089	39,089	39,089	39,089	39,089	39,089	39,089	39,089	39,089	39,089	39,089	477,786
Freight - Out F/C	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	38,880
COS-Total	2,984,224	2,988,224	2,988,224	2,988,224	2,988,224	2,988,224	2,988,224	2,988,224	2,988,224	2,988,224	2,988,224	34,086,683
Gross Profit	405,192	409,192	409,192	409,192	409,192	409,192	409,192	409,192	409,192	409,192	409,192	4,986,309
Plant Expenses												
Supervisors	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,004
Maint Engineer	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	35,004
Kill Floor	44,631	44,631	44,631	44,631	44,631	44,631	44,631	44,631	44,631	44,631	44,631	535,572
Bone,Box, Ship	46,988	46,988	46,988	46,988	46,988	46,988	46,988	46,988	46,988	46,988	46,988	563,860
Mechanic	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	126,846
Cleanup	4,698	4,698	4,698	4,698	4,698	4,698	4,698	4,698	4,698	4,698	4,698	56,376
	113,964	113,964	113,964	113,964	113,964	113,964	113,964	113,964	113,964	113,964	113,964	1,367,562
	28,491	28,491	28,491	28,491	28,491	28,491	28,491	28,491	28,491	28,491	28,491	341,891
USDA-Inspector	0	0	0	0	0	0	0	0	0	0	0	0
Repairs & Maint	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Utilities	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	38,000	456,000
Laundry	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Tools	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Cleanup & Supplies	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
	0	0	0	0	0	0	0	0	0	0	0	0
	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Total Plant Expense	232,454	232,454	232,454	232,454	232,454	232,454	232,454	232,454	232,454	232,454	232,454	2,789,453

Selling & Administrative Expenses

Plant Manager	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	75,000
Office Manager	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	35,004
Clerks	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	75,000
Plant Supervisor	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,996
Buyer	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	120,000
Yard People	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Total Labor	31,250	31,250	31,250	31,250	31,250	31,250	31,250	31,250	31,250	31,250	31,250	31,250	375,000
Payroll Taxes & Benefi	7,813	7,813	7,813	7,813	7,813	7,813	7,813	7,813	7,813	7,813	7,813	7,813	93,750
Bad Debts	33,094	33,094	33,094	33,094	33,094	33,094	33,094	33,094	33,094	33,094	33,094	33,094	397,130
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	708,000
Legal & Accounting	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000
Insurance	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	192,000
Taxes - Property	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
Telephone	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
Supplies	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
Misc Expenses	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Total Selling & Admin	184,657	184,657	184,657	184,657	184,657	184,657	184,657	184,657	184,657	184,657	184,657	184,657	2,215,880
Total Expenses	417,111	417,111	417,111	417,111	417,111	417,111	417,111	417,111	417,111	417,111	417,111	417,111	5,005,132
Profit Before Income T	(111,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(993,824)
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	(111,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(993,824)

Montana Packing Plant
Cash Flow
Midland Packing

APPENDIX A-2

	Jul 86	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87
70 Begin Inv - C/B	0	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
71 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
74	0	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
Purchases													
75	0	2,772,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000
76	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
78	0	3,036,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000
80 Cost Livestock - C/B	0	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000
81 - F/C	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
83	0	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000
85 End Inv - C/B	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
86 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
89	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
90	0	0	212,520	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040
95 Purchases - C/B	0	2,772,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000	2,506,000
96 - F/C	0	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000	264,000
98 Total	0	3,036,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000
100 Payments	0	2,823,480	2,798,480	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000	2,772,000
105 Ending -A/P	0	212,520	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040	194,040
110 Cash Beginning	0	2,655,200	116,938	116,219	115,499	114,779	114,058	113,340	112,621	111,901	111,181	110,462	109,742
111 Income after tax	0	(11,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)	(7,919)
112 Depreciation	0	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
113 Change in A/R	0	(2,482,862)	0	0	0	0	0	0	0	0	0	0	0
114 Change in A/P	0	212,520	0	0	0	0	0	0	0	0	0	0	0
115 Change in Invent	0	(264,000)	0	0	0	0	0	0	0	0	0	0	0
116 Loan Renovation	418,000	0	0	0	0	0	0	0	0	0	0	0	0
117 Loan Working Cap	629,000	0	0	0	0	0	0	0	0	0	0	0	0
118 Loan Cattle	2,048,000	0	0	0	0	0	0	0	0	0	0	0	0
119 Loan Prior Debt	1,675,000	0	0	0	0	0	0	0	0	0	0	0	0
123 sub	4,753,000	121,739	121,020	120,300	119,580	118,861	118,141	117,422	116,702	115,982	115,263	114,543	113,823
128 Less:Debt Service	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
121 Fixed Asset Requ	418,000	0	0	0	0	0	0	0	0	0	0	0	0
122 Note Payments	1,675,000	0	0	0	0	0	0	0	0	0	0	0	0
124 sub	2,655,200	116,939	116,220	115,500	114,780	114,061	113,341	112,622	111,902	111,182	110,463	109,743	109,023
128 chk cash bal	0	0	0	0	0	0	0	0	0	0	0	0	0
129 ck bal	1	1	1	1	1	1	1	1	1	1	1	1	1
130 Cash Ending Bal	2,655,200	116,938	116,219	115,499	114,779	114,058	113,340	112,621	111,901	111,181	110,462	109,742	109,022

Appendixes A3 and A4 show two years of possible operations for YBP. First year (A3) slaughter is 1700 cows/bulls and 300 fed cattle per month, and second year (A4) slaughter increases to 2000 cows/bulls and 400 fed cattle per month. Due to the lack of rendering revenue and adequate drop credit revenue it is projected that YBP would consistently lag industry averages in regards to profit margins. Appendix A3 shows a first year margin of approximately .75% which is based upon net income / total sales. From Chapter 11, it was noted that meatpackers in the "local" size designation such as YBP had a similar industry average margin of approximately 1.31% in 1984.

Appendix A5 shows an initial capital need of approximately $360,000 for retrofitting and $700,000 for working capital. If the facility could maintain profitability, then the cash position would improve. The second year of operation (A6) shows a $100,000 expenditure from cash for potential repair or retrofit.

Appendixes A7 through A9 are based upon different variables in live animal costs and yields from slaughter (see pages 70 and 71 of the study). The point of these statements is to demonstrate that a slight change in almost any variable can change profitability in a significant manner. These statements could apply to any of the three scenarios (Midland, YBP, or an alternative facility).

Only two years of operations are shown for YBP. For

reasons mentioned in Chapter 6, it would be difficult to expand the slaughter rate beyond that shown in Appendix A5.

APPENDIX A-3

Montana Packing Plant
Projected Income Statement
Yellowstone Beef Packers

	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Total
Sales Cow/Bulls	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	7,711,390
Sales Fat Cattle	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	2,721,600
Sales Hides	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	344,400
Sales-Offal	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Total Sales	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	10,983,600
Cost of Goods Sold													
Begin Inventory-C/B	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	726,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	627,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	6,798,000
-F/C	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	2,376,000
Ending Inventory-C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	6,732,000
Cost Livestock-F/C	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	2,376,000
Freight - In	9,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	103,000
Freight - In F/C	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Freight - Out	9,188	9,188	9,188	9,188	9,188	9,188	9,188	9,188	9,188	9,188	9,188	9,188	110,168
Freight - Out F/C	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	29,160
COS-Total	783,845	782,845	782,845	782,845	782,845	782,845	782,845	782,845	782,845	782,845	782,845	782,845	9,385,568
Gross Profit	122,255	123,255	123,255	123,255	123,255	123,255	123,255	123,255	123,255	123,255	123,255	123,255	1,478,868
Plant Expenses													
Supervisors	0	0	0	0	0	0	0	0	0	0	0	0	0
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	126,846
Bone,Box, Ship	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	183,222
Mechanic	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	21,141
Cleanup	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	14,094
	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	345,303
	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	86,325
USDA-Inspector	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs & Maint	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Utilities	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Laundry	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Tools	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	0	0	0	0	0	0	0	0	0	0	0	0	0
	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Total Plant Expense	33,369	33,369	33,369	33,369	33,369	33,369	33,369	33,369	33,369	33,369	33,369	33,369	671,649

Selling & Administrative Expenses

Plant Manager	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,996
Office Manager	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	24,996
Clerks	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Plant Supervisor	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Buyer	0	0	0	0	0	0	0	0	0	0	0	0	0
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	124,992
Payroll Taxes & Benefi	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	31,248
Bad Debts	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	109,836
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	124,800
Legal & Accounting	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Insurance	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Taxes - Property	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Telephone	1,680	1,680	1,680	1,680	1,680	1,680	1,680	1,680	1,680	1,680	1,680	1,680	21,600
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc Expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Total Selling & Admin	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	678,476
Total Expenses	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	1,342,185
Profit Before Income T	10,413	11,413	11,413	11,413	11,412	11,413	11,413	11,413	11,413	11,413	11,413	11,413	135,955
Income Taxes	4,165	4,565	4,565	4,565	4,565	4,565	4,565	4,565	4,565	4,565	4,565	4,565	54,382
Net Profit	6,248	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	81,573

APPENDIX A-4

Montana Packing Plant
Projected Income Statement
Yellowstone Beef Packers - Year 2

	Aug 87	Sep 87	Oct 87	Nov 87	Dec 87	Jan 88	Feb 88	Mar 88	Apr 88	May 88	Jun 88	Jul 88	Aug 88
Sales-Cow/Bulls	799,200	799,200	799,200	799,200	799,200	799,200	799,200	799,200	799,200	799,200	799,200	799,200	9,590,400
Sales-Fat Cattle	311,040	311,040	311,040	311,040	311,040	311,040	311,040	311,040	311,040	311,040	311,040	311,040	3,732,480
Sales-Hides	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	34,000	408,000
Sales-Offal	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Total Sales	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	1,164,240	13,970,880
Cost of Goods Sold													
Begin Inventory-C/B	0	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	770,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	770,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	8,470,000
-F/C	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	3,283,200
Ending Inventory-C/B	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	840,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	8,400,000
Cost Livestock-F/C	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	273,600	3,283,200
Freight - In	11,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	121,000
Freight - In F/C	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Other cost mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	122,400
Freight - Out	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	126,000
Freight - Out F/C	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	38,880
COS-Total	1,814,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	1,813,380	12,161,568
Gross Profit	149,860	150,860	150,860	150,860	150,860	150,860	150,860	150,860	150,860	150,860	150,860	150,860	1,809,320
Plant Expenses													
Supervisors	0	0	0	0	0	0	0	0	0	0	0	0	0
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	11,745	11,745	11,745	11,745	11,745	11,745	11,745	11,745	11,745	11,745	11,745	11,745	140,940
Bone,Box, Ship	17,618	17,618	17,618	17,618	17,618	17,618	17,618	17,618	17,618	17,618	17,618	17,618	211,418
Mechanic	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	21,141
Cleanup	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	14,094
	32,299	32,299	32,299	32,299	32,299	32,299	32,299	32,299	32,299	32,299	32,299	32,299	387,593
USDA-Inspector	8,075	8,075	8,075	8,075	8,075	8,075	8,075	8,075	8,075	8,075	8,075	8,075	96,896
Repairs & Maint	0	0	0	0	0	0	0	0	0	0	0	0	0
Utilities	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Laundry	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Tools	500	500	500	500	500	500	500	500	500	500	500	500	6,000
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	0	0	0	0	0	0	0	0	0	0	0	0	0
	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Total Plant Expense	68,873	68,873	68,873	68,873	68,873	68,873	68,873	68,873	68,873	68,873	68,873	68,873	826,481

Selling & Administrative Expenses

Plant Manager	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,996
Office Manager	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Clerks	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Plant Supervisor	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Buyer	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	15,833	15,833	15,833	15,833	15,833	15,833	15,833	15,833	15,833	15,833	15,833	15,833	189,996
Payroll Taxes & Benefi	3,958	3,958	3,958	3,958	3,958	3,958	3,958	3,958	3,958	3,958	3,958	3,958	47,499
Bad Debts	11,642	11,642	11,642	11,642	11,642	11,642	11,642	11,642	11,642	11,642	11,642	11,642	139,709
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	124,800
Legal & Accounting	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Insurance	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Taxes - Property	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Telephone	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc Expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Total Selling & Admin	65,134	65,134	65,134	65,134	65,134	65,134	65,134	65,134	65,134	65,134	65,134	65,134	781,604
Total Expenses	126,807	126,807	126,807	126,807	126,807	126,807	126,807	126,807	126,807	126,807	126,807	126,807	1,512,865
Profit Before Income T	23,853	24,853	24,853	24,853	24,853	24,853	24,853	24,853	24,853	24,853	24,853	24,853	297,235
Income Taxes	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	118,894
Net Profit	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	178,341

Montana Packing Plant
Cash Flow
Yellowstone Beef Packers

APPENDIX A - 1

	Jul 86	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87
70 Begin Inv - C/B	0	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
71	0	0	0	0	0	0	0	0	0	0	0	0	0
74	0	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
Purchases													
75	0	627,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000
76	0	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000
78	0	825,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000
80 Cost Livestock - C/B	0	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000
81 - F/C	0	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000
83	0	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000
85 End Inv - c/b	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
86 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
89	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
90	0	0	57,750	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130
95 Purchases - C/B	0	627,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000
96 - F/C	0	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000
98 Total	0	825,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000
100 Payments	0	767,250	763,620	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000	759,000
105 Ending -A/P	0	57,750	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130	53,130
110 Cash Beginning	0	789,000	31,522	49,369	67,215	85,062	102,909	120,756	138,602	156,449	174,296	192,143	209,989
111 Income after tax	0	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848	6,848
112 Depreciation	0	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
113 Change in A/R	0	(606,475)	0	0	0	0	0	0	0	0	0	0	0
114 Change in A/P	0	57,750	0	0	0	0	0	0	0	0	0	0	0
115 Change in Invent	0	(66,000)	0	0	0	0	0	0	0	0	0	0	0
116 Loan Revnovation	363,000	0	0	0	0	0	0	0	0	0	0	0	0
117 Loan Working Cap	160,000	0	0	0	0	0	0	0	0	0	0	0	0
118 Loan Cattle	550,000	0	0	0	0	0	0	0	0	0	0	0	0
119 Loan Prior Debt	350,000	0	0	0	0	0	0	0	0	0	0	0	0
123 sub	1,423,000	32,523	50,370	68,216	86,063	103,910	121,757	139,603	157,450	175,297	193,144	210,990	228,837
120 Less:Debt Service	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
121 Fixed Onsrsl Reqs	363,000	0	0	0	0	0	0	0	0	0	0	0	0
122 Note Payments	350,000	0	0	0	0	0	0	0	0	0	0	0	0
124 sub	789,000	31,523	49,370	67,216	85,063	102,910	120,757	138,603	156,450	174,297	192,144	209,990	227,837
128 chk cash bal	0	0	0	0	0	0	0	0	0	0	0	0	0
129 ck bal	1	1	1	1	1	1	1	1	1	1	1	1	1
130 Cash Ending Bal	789,000	31,522	49,369	67,215	85,062	102,909	120,756	138,602	156,449	174,296	192,143	209,989	227,836

Montana Packing Plant
Cash Flow
Yellowstone Beef Packers

APPENDIX A-6

	Jul 87	Aug 87	Sep 87	Oct 87	Nov 87	Dec 87	Jan 88	Feb 88	Mar 88	Apr 88	May 88	Jun 88	Jul 88
70 Begin Inv - C/B	66,000	66,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
71	0	0	0	0	0	0	0	0	0	0	0	0	0
74	66,000	66,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Purchases													
75	561,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000
76	198,000	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680
78	759,000	977,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680
80 Cost Livestock - C/B	561,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000
81 - F/C	198,000	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680
83	759,000	977,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680
85 End Inv - c/b	66,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
86 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
89	66,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
90	53,130	53,130	68,432	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152
95 Purchases - C/B	561,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000	704,000
96 - F/C	198,000	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680	273,680
98 Total	759,000	977,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680
100 Payments	739,000	962,298	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680	973,680
105 Ending -A/P	53,130	68,432	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152	68,152
110 Cash Beginning	209,389	227,837	148,948	174,659	200,369	226,080	251,791	277,502	303,212	328,923	354,634	380,345	406,055
111 Income after Tax	6,948	14,312	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912	14,912
112 Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
113 Change in A/R	0	0	0	0	0	0	0	0	0	0	0	0	0
114 Change in A/P	0	0	0	0	0	0	0	0	0	0	0	0	0
115 Change in Invent	0	(4,000)	0	0	0	0	0	0	0	0	0	0	0
116 Loan Revovation	0	0	0	0	0	0	0	0	0	0	0	0	0
117 Loan Working Cap	0	0	0	0	0	0	0	0	0	0	0	0	0
118 Loan Cattle	0	0	0	0	0	0	0	0	0	0	0	0	0
119 Loan Prior Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
123 sub	228,337	258,149	175,860	201,570	227,281	252,992	278,703	304,413	330,124	355,835	381,546	407,256	432,967
128 Less:Debt Service	1,000	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
121 Fixed Assest Acqu	0	100,000	0	0	0	0	0	0	0	0	0	0	0
122 Note Payments	0	0	0	0	0	0	0	0	0	0	0	0	0
124 sub	227,837	148,949	174,660	200,370	226,081	251,792	277,503	303,213	328,924	354,635	380,346	406,056	431,767
128 chk cash bal	0	0	0	0	0	0	0	0	0	0	0	0	0
129 ck bal	1	1	1	1	1	1	1	1	1	1	1	1	1
138 Cash Ending Bal	227,837	148,948	174,659	200,369	226,080	251,791	277,502	303,212	328,923	354,634	380,345	406,055	431,766

APPENDIX A-7

Montana Packing Plant
Projected Income Statement
Yellowstone - 35/100 lbs. Yield 50%

	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Total
Sales-Cow/Bulls	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	642,680	7,711,200
Sales-Fat Cattle	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	2,721,600
Sales-Hides	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	344,400
Sales-Offal	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Total Sales	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	915,380	10,981,200
Cost of Goods Sold													
Begin Inventory-C/B	0	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	770,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	665,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	7,210,000
-F/C	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	2,376,000
Ending Inventory-C/B	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	848,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	7,140,000
Cost Livestock-F/C	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	196,000	2,376,000
Freight - In	9,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Freight - In F/C	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Freight - Out	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	9,180	110,160
Freight - Out F/C	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	2,430	29,160
COS-Total	827,845	826,845	826,845	826,845	826,845	826,845	826,845	826,845	826,845	826,845	826,845	826,845	9,913,560
Gross Profit	88,255	89,255	89,255	89,255	89,255	89,255	89,255	89,255	89,255	89,255	89,255	89,255	1,078,060
Plant Expenses													
Supervisors	0	0	0	0	0	0	0	0	0	0	0	0	0
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	126,846
Bone,Box, Ship	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	183,222
Mechanic	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	21,141
Cleanup	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	14,094
	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	345,303
USDA-Inspector	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	86,326
Repairs & Maint	0	0	0	0	0	0	0	0	0	0	0	0	0
Utilities	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Laundry	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Tools	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Cleanup & Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	0	0	0	0	0	0	0	0	0	0	0	0	0
	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Total Plant Expense	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	671,629

Selling & Administrative Expenses

Plant Manager	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,996
Office Manager	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	24,996
Clerks	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Plant Supervisor	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Buyer	0	0	0	0	0	0	0	0	0	0	0	0	0
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	124,992
Payroll Taxes & Benefi	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	31,248
Bad Debts	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	9,153	109,836
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	124,800
Legal & Accounting	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Insurance	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Taxes - Property	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Telephone	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc Expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Total Selling & Admin	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	55,073	670,476
Total Expenses	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	111,842	1,342,105
Profit Before Income T	(23,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(272,845)
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	(23,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(22,587)	(272,845)

APPENDIX A-6

Montana Packing Plant
Projected Income Statement
Yellowstone - Cost 33/100 lbs Yield 48.5%

	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Total
Sales Cow/Bulls	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	7,479,864
Sales Fat Cattle	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	226,000	2,721,648
Sales-Hides	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	346,000
Sales-Offal	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Total Sales	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	10,750,264
Cost of Goods Sold													
Begin Inventory-C/B	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	726,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	627,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	6,738,000
-F/C	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	2,376,000
Ending Inventory-C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	561,000	6,732,000
Cost Livestock-F/C	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	2,376,000
Freight - In	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Freight - In F/C	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Freight - Out	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	106,855
Freight - Out F/C	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	29,164
COS-Total	792,724	791,724	791,724	791,724	791,724	791,724	791,724	791,724	791,724	791,724	791,724	791,724	9,501,684
Gross Profit	103,298	104,298	104,298	104,298	104,298	104,298	104,298	104,298	104,298	104,298	104,298	104,298	1,248,580
Plant Expenses													
Supervisors	0	0	0	0	0	0	0	0	0	0	0	0	0
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	126,846
Bone,Box, Ship	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	183,222
Mechanic	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	21,141
Cleanup	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	14,094
	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	345,303
	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	86,326
USDA-Inspector	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs & Maint	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Utilities	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Laundry	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Tools	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	0	0	0	0	0	0	0	0	0	0	0	0	0
	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Total Plant Expense	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	671,629

Selling & Administrative Expenses

Plant Manager	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,996
Office Manager	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,081	24,996
Clerks	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Plant Supervisor	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Buyer	0	0	0	0	0	0	0	0	0	0	0	0	0
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	124,992
Payroll Taxes & Benefi	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	31,248
Bad Debts	8,760	8,760	8,760	8,760	8,760	8,760	8,760	8,760	8,760	8,760	8,760	8,760	105,120
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	124,800
Legal & Accounting	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Insurance	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Taxes - Property	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Telephone	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	21,600
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc Expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Total Selling & Admin	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	668,163
Total Expenses	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	1,339,791
Profit Before Income T	(8,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(89,212)
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	(8,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(7,251)	(89,212)

APPENDIX A-9

Montana Packing Plant
Projected Income Statement
Yellowstone - 35/100 lbs Yield 48.5%

	May 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Total
Sales Cow/Bulls	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	623,322	7,479,864
Sales-Fat Cattle	201,000	201,000	201,000	201,000	201,000	201,000	201,000	201,000	201,000	201,000	201,000	201,000	2,721,000
Sales-Hides	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	28,700	346,500
Sales-Offal	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Total Sales	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	896,022	10,750,364
Cost of Goods Sold													
Begin Inventory-C/B	0	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	770,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	665,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	7,210,000
-F/C	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	2,376,000
Ending Inventory-C/B	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	844,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	595,000	7,136,000
Cost Livestock-F/C	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	198,000	2,376,000
Freight - In	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	101,000
Freight - In F/C	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Freight - Out	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	107,855
Freight - Out F/C	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	2,438	29,260
COS-Total	825,724	825,724	825,724	825,724	825,724	825,724	825,724	825,724	825,724	825,724	825,724	825,724	9,909,684
Gross Profit	67,298	70,298	70,298	70,298	70,298	70,298	70,298	70,298	70,298	70,298	70,298	70,298	842,500
Plant Expenses													
Supervisors	0	0	0	0	0	0	0	0	0	0	0	0	0
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	10,571	126,846
Bone,Box, Ship	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	183,229
Mechanic	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	21,141
Cleanup	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	1,175	14,094
	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	28,775	345,303
	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	7,194	86,328
USDA-Inspector	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs & Maint	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Utilities	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Laundry	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Tools	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	0	0	0	0	0	0	0	0	0	0	0	0	0
	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Total Plant Expense	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	55,969	671,629

Selling & Administrative Expenses													
Plant Manager	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,996
Office Manager	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	24,996
Clerks	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Plant Supervisor	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Buyer	0	0	0	0	0	0	0	0	0	0	0	0	0
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	10,416	124,992
Payroll Taxes & Benefi	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	2,604	31,248
Bad Debts	8,960	8,960	8,960	8,960	8,960	8,960	8,960	8,960	8,960	8,960	8,960	8,960	107,523
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	124,800
Legal & Accounting	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Insurance	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Taxes - Property	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Telephone	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	21,500
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Misc Expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Total Selling & Admin	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	55,680	668,163
Total Expenses	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	111,649	1,339,791
Profit Before Income T	(42,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(497,212)
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	(42,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(41,251)	(497,212)

POTENTIAL PACKING PLANT

Appendixes A10-A12 show three years of possible operations for an alternative facility. The slaughter rates are varied each year as follows...

Year	Slaughter Rate/Month	
1	2400	cows/bulls
	600	fed cattle
2	3000	cows/bulls
	1000	fed cattle
3	4000	cows/bulls
	1200	fed cattle

Profit margins are approximately 1.25% in the first year of operations to 1.67% in the third year of operations based upon net income / total sales. This assumes an aggressive and successful marketing program for the red meat from fed cattle slaughter.

Appendix A13 shows an initial capital need of $1 million in long term debt in addition to $750,000 in equity for startup. Further investments of $300,000 in the second year of operations to bring the inedible rendering system on line and $200,000 in the third year to expand coolers and freezers are shown. Assuming consistent profitability, these future expenditures can be covered both from cash on hand and/or long term debt financing.

Three years of operations are shown to demonstrate the expansion of goals in both slaughter and red meat marketing.

APPENDIX A-10

Montana Packing Plant
Projected Income Statement
Possible Packing Plant

	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Total
Sales-Cow/Bulls	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	18,886,400
Sales-Fat Cattle	453,600	453,600	453,600	453,600	453,600	453,600	453,600	453,600	453,600	453,600	453,600	453,600	5,443,200
Sales-Hides	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	489,600
Sales-Offal	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	288,000
Total Sales	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	1,425,600	17,107,200
Cost of Goods Sold													
Begin Inventory-C/B	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	726,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	858,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	9,570,000
-F/C	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	4,752,000
Ending Inventory-C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	9,504,000
Cost Livestock-F/C	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	4,752,000
Freight - In	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	145,000
Freight - In F/C	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750	12,750	153,000
Freight - Out	12,960	12,960	12,960	12,960	12,960	12,960	12,960	12,960	12,960	12,960	12,960	12,960	155,520
Freight - Out F/C	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	4,860	58,320
COS-Total	1,235,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	1,238,040	14,857,680
Gross Profit	186,560	187,560	187,560	187,560	187,560	187,560	187,560	187,560	187,560	187,560	187,560	187,560	2,249,520
Plant Expenses													
Supervisors	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	35,004
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	15,269	183,222
Bone,Box, Ship	24,665	24,665	24,665	24,665	24,665	24,665	24,665	24,665	24,665	24,665	24,665	24,665	295,974
Mechanic	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	1,762	21,141
Cleanup	2,349	2,349	2,349	2,349	2,349	2,349	2,349	2,349	2,349	2,349	2,349	2,349	28,188
	46,961	46,961	46,961	46,961	46,961	46,961	46,961	46,961	46,961	46,961	46,961	46,961	563,529
	11,740	11,740	11,740	11,740	11,740	11,740	11,740	11,740	11,740	11,740	11,740	11,740	140,882
USDA-Inspector	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs & Maint	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000
Utilities	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Laundry	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Tools	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Total Plant Expense	84,201	84,201	84,201	84,201	84,201	84,201	84,201	84,201	84,201	84,201	84,201	84,201	1,010,411

Selling & Administrative Expenses

Plant Manager	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Office Manager	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	2,083	24,996
Clerks	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	3,750	45,000
Plant Supervisor	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Buyer	0	0	0	0	0	0	0	0	0	0	0	0	0
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	13,333	159,996
Payroll Taxes & Benefs	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	39,979
Bad Debts	14,256	14,256	14,256	14,256	14,256	14,256	14,256	14,256	14,256	14,256	14,256	14,256	171,072
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	184,800
Legal & Accounting	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Insurance	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Taxes - Property	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Telephone	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Supplies	2,000	2,000	3,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Misc Expenses	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	21,000
Total Selling & Admin	73,072	73,072	73,072	73,072	73,072	73,072	73,072	73,072	73,072	73,072	73,072	73,072	886,467
Total Expenses	156,073	156,073	156,073	156,073	156,073	156,073	156,073	156,073	156,073	156,073	156,073	156,073	1,896,878
Profit Before Income T	29,487	29,487	29,487	29,487	29,487	29,487	29,487	29,487	29,487	29,487	29,487	29,487	352,842
Income Taxes	11,795	11,795	11,795	11,795	11,795	11,795	11,795	11,795	11,795	11,795	11,795	11,795	141,137
Net Profit	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	211,705

APPENDIX A-11

Montana Packing Plant
Projected Income Statement
Possible Packing Plant

	Aug 87	Sep 87	Oct 87	Nov 87	Dec 87	Jan 88	Feb 88	Mar 88	Apr 88	May 88	Jun 88	Jul 88	Total
Sales-Cow/Bulls	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	1,134,000	13,608,000
Sales-Fat Cattle	756,000	756,000	756,000	756,000	756,000	756,000	756,000	756,000	756,000	756,000	756,000	756,000	9,072,000
Sales-Hides	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	612,000
Sales-Offal	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	33,000	396,000
Total Sales	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	1,974,000	23,688,000
Cost of Goods Sold													
Begin Inventory C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase C/B	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	11,000,000
F/C	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	7,920,000
Ending Inventory-C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock C/B	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	798,000	11,088,000
Cost Livestock-F/C	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	7,920,000
Freight - In	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000
Freight - In F/C	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Other cost Mfg	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	204,000
Freight Out	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	194,400
Freight Out F/C	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	8,100	97,200
COS-Total	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	1,717,350	20,588,200
Gross Profit	256,650	256,650	256,650	256,650	256,650	256,650	256,650	256,650	256,650	256,650	256,650	256,650	3,099,800
Plant Expenses													
Supervisors	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	35,004
Maint Engineer	0	0	0	0	0	0	0	0	0	0	0	0	0
Kill Floor	24,795	24,795	24,795	24,795	24,795	24,795	24,795	24,795	24,795	24,795	24,795	24,795	297,540
Bone,Box, Ship	32,625	32,625	32,625	32,625	32,625	32,625	32,625	32,625	32,625	32,625	32,625	32,625	391,500
Mechanic	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	23,490
Cleanup	2,610	2,610	2,610	2,610	2,610	2,610	2,610	2,610	2,610	2,610	2,610	2,610	31,320
	64,905	64,905	64,905	64,905	64,905	64,905	64,905	64,905	64,905	64,905	64,905	64,905	778,854
	16,226	16,226	16,226	16,226	16,226	16,226	16,226	16,226	16,226	16,226	16,226	16,226	194,714
USDA-Inspector	0	0	0	0	0	0	0	0	0	0	0	0	0
Repairs & Maint	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
Utilities	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
Laundry	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Tools	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Total Plant Expense	113,131	113,131	113,131	113,131	113,131	113,131	113,131	113,131	113,131	113,131	113,131	113,131	1,357,568

Selling & Administrative Expenses

Plant Manager	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	80,004
Office Manager	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Clerks	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250	75,000
Plant Supervisor	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Buyer	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Yard People	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Labor	22,417	22,417	22,417	22,417	22,417	22,417	22,417	22,417	22,417	22,417	22,417	22,417	269,004
Payroll Taxes & Benefs	5,604	5,604	5,604	5,604	5,604	5,604	5,604	5,604	5,604	5,604	5,604	5,604	67,251
Bad Debts	19,740	19,740	19,740	19,740	19,740	19,740	19,740	19,740	19,740	19,740	19,740	19,740	236,880
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	15,400	184,800
Legal & Accounting	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
Insurance	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Taxes - Property	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Telephone	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Supplies	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Misc Expenses	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Total Selling & Admin	94,161	94,161	94,161	94,161	94,161	94,161	94,161	94,161	94,161	94,161	94,161	94,161	1,129,935
Total Expenses	207,292	207,292	207,292	207,292	207,292	207,292	207,292	207,292	207,292	207,292	207,292	207,292	2,487,503
Profit Before Income T	49,358	49,358	49,358	49,358	49,358	49,358	49,358	49,358	49,358	49,358	49,358	49,358	592,298
Income Taxes	19,743	19,743	19,743	19,743	19,743	19,743	19,743	19,743	19,743	19,743	19,743	19,743	236,919
Net Profit	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	355,379

APPENDIX A-12

Montana Packing Plant
Projected Income Statement
Possible Packing Plant

	Aug 88	Sep 88	Oct 88	Nov 88	Dec 88	Jan 89	Feb 89	Mar 89	Apr 89	May 89	Jun 89	Jul 89	Total
Sales-Cow/Bulls	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	1,512,000	18,144,000
Sales-Fat Cattle	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	987,200	10,686,400
Sales-Hides	68,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000	68,000	816,000
Sales-Offal	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000	576,000
Total Sales	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	2,535,200	30,422,400
Cost of Goods Sold													
Begin Inventory-C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase -C/B	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	15,840,000
-F/C	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	9,504,000
Ending Inventory-C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	792,000
-F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost Livestock-C/B	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	15,840,000
Cost Livestock-F/C	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	9,504,000
Freight - In	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Freight - In F/C	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000
Buyers Commission	0	0	0	0	0	0	0	0	0	0	0	0	0
Brand Inspection	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	31,200
Other cost Mfg.	0	0	0	0	0	0	0	0	0	0	0	0	0
Box & Container Cost	22,100	22,100	22,100	22,100	22,100	22,100	22,100	22,100	22,100	22,100	22,100	22,100	265,200
Freight - Out	21,680	21,680	21,680	21,680	21,680	21,680	21,680	21,680	21,680	21,680	21,680	21,680	259,200
Freight - Out F/C	9,720	9,720	9,720	9,720	9,720	9,720	9,720	9,720	9,720	9,720	9,720	9,720	116,640
COS-Total	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	2,199,240	26,390,080
Gross Profit	335,960	335,960	335,960	335,960	335,960	335,960	335,960	335,960	335,960	335,960	335,960	335,960	4,031,520
Plant Expenses													
Supervisors	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	2,917	35,004
Maint Engineer	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	28,800
Kill Floor	38,015	38,015	38,015	38,015	38,015	38,015	38,015	38,015	38,015	38,015	38,015	38,015	456,180
Bone,Box, Ship	33,938	33,938	33,938	33,938	33,938	33,938	33,938	33,938	33,938	33,938	33,938	33,938	407,260
Mechanic	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	23,490
Cleanup	3,915	3,915	3,915	3,915	3,915	3,915	3,915	3,915	3,915	3,915	3,915	3,915	46,980
	75,135	75,135	75,135	75,135	75,135	75,135	75,135	75,135	75,135	75,135	75,135	75,135	901,614
	18,784	18,784	18,784	18,784	18,784	18,784	18,784	18,784	18,784	18,784	18,784	18,784	225,404
USDA-Inspector	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,004
Repairs & Maint	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Utilities	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	102,000
Laundry	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Tools	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
Cleanup & Supplies	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Total Plant Expense	138,085	138,085	138,085	138,085	138,085	138,085	138,085	138,085	138,085	138,085	138,085	138,085	1,657,822

Selling & Administrative Expenses

Plant Manager	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	6,667	80,004
Office Manager	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Clerks	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000
Plant Supervisor	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
Buyer	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Yard People	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Total Labor	36,667	36,667	36,667	36,667	36,667	36,667	36,667	36,667	36,667	36,667	36,667	36,667	440,004
Payroll Taxes & Benef:	9,167	9,167	9,167	9,167	9,167	9,167	9,167	9,167	9,167	9,167	9,167	9,167	110,001
Bad Debts	25,352	25,352	25,352	25,352	25,352	25,352	25,352	25,352	25,352	25,352	25,352	25,352	304,224
Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
Interest	15,480	15,480	15,480	15,480	15,480	15,480	15,480	15,480	15,480	15,480	15,480	15,480	184,080
Legal & Accounting	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
Insurance	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
Taxes - Property	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Telephone	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Supplies	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Misc Expenses	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Total Selling & Admin	127,806	127,806	127,806	127,806	127,806	127,806	127,806	127,806	127,806	127,806	127,806	127,806	1,525,829
Total Expenses	265,171	265,171	265,171	265,171	265,171	265,171	265,171	265,171	265,171	265,171	265,171	265,171	3,182,051
Profit Before Income T	70,789	70,789	70,789	70,789	70,789	70,789	70,789	70,789	70,789	70,789	70,789	70,789	849,478
Income Taxes	28,316	28,316	28,316	28,316	28,316	28,316	28,316	28,316	28,316	28,316	28,316	28,316	339,788
Net Profit	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	509,682

Montana Packing Plant
Cash Flow
Possible Packing Plant

APPENDIX A-11

	Jul 86	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87
70 Begin Inv - C/B	0	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
71	0	0	0	0	0	0	0	0	0	0	0	0	0
74	0	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
Purchases													
75	0	858,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000
76	0	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000
78	0	1,254,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000
80 Cost Livestock - C/B	0	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000
81 - F/C	0	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000
83	0	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000
85 End Inv - c/b	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
86 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
89	0	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
90	0	0	87,780	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160
95 Purchases - C/B	0	858,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000
96 - F/C	0	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000
98 Total	0	1,254,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000
100 Payments	0	1,166,220	1,192,620	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000	1,188,000
105 Ending A/P	0	87,780	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160	83,160
110 Cash Beginning	0	1,048,000	29,271	57,762	86,253	114,744	143,235	171,727	200,218	228,709	257,200	285,691	314,182
111 Income after Tax	0	17,892	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692	17,692
112 Depreciation	0	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
113 Change in A/R	0	(1,067,280)	0	0	0	0	0	0	0	0	0	0	0
114 Change in A/P	0	87,780	0	0	0	0	0	0	0	0	0	0	0
115 Change in Invent	0	(66,000)	0	0	0	0	0	0	0	0	0	0	0
116 Loan Renovation	1,000,000	0	0	0	0	0	0	0	0	0	0	0	0
117 Loan Working Cap	200,000	0	0	0	0	0	0	0	0	0	0	0	0
118 Loan Cattle	850,000	0	0	0	0	0	0	0	0	0	0	0	0
119 Loan Prior Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
123 sub	2,050,000	30,472	58,963	87,454	115,945	144,436	172,928	201,419	229,910	258,401	286,892	315,383	343,874
120 Less:Debt Service	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
121 Fixed Asset Acqu	1,000,000	0	0	0	0	0	0	0	0	0	0	0	0
122 Note Payments	0	0	0	0	0	0	0	0	0	0	0	0	0
124 sub	1,048,800	29,272	57,763	86,254	114,745	143,236	171,728	200,219	228,710	257,201	285,692	314,183	342,674
128 chk cash bal	0	0	0	0	0	0	0	0	0	0	0	0	0
129 ck bal	1	1	1	1	1	1	1	1	1	1	1	1	1
130 Cash Ending Bal	1,048,800	29,271	57,762	86,253	114,744	143,235	171,727	200,218	228,709	257,200	285,691	314,182	342,673

Montana Packing Plant
Cash Flow
Possible Packing Plant

APPENDIX A - 12

	Jul 87	Aug 87	Sep 87	Oct 87	Nov 87	Dec 87	Jan 88	Feb 88	Mar 88	Apr 88	May 88	Jun 88	Jul 88
70 Begin Inv - C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
71 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
74	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
Purchases													
75													
76	792,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000
	396,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000
78	1,188,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
80 Cost Livestock - C/B	792,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000
81 - F/C	396,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000
83	1,188,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
85 End inv - c/b	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
86 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
89	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
90													
95 Purchases - C/B	83,160	83,160	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500
96 - F/C	792,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000	990,000
	396,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000	660,000
98 Total	1,188,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
100 Payments	1,188,000	1,617,660	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
105 Ending A/P	83,160	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500
110 Cash Beginning	314,182	342,674	82,888	123,182	163,316	203,530	243,743	283,957	324,171	364,385	404,599	444,813	485,027
111 Income after tax	17,492	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615	29,615
112 Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
113 Change in A/R	0	0	0	0	0	0	0	0	0	0	0	0	0
114 Change in A/P	0	0	0	0	0	0	0	0	0	0	0	0	0
115 Change in Invent	0	0	0	0	0	0	0	0	0	0	0	0	0
116 Loan Revnovation	0	0	0	0	0	0	0	0	0	0	0	0	0
117 Loan Working Cap	0	0	0	0	0	0	0	0	0	0	0	0	0
118 Loan Cattle	0	0	0	0	0	0	0	0	0	0	0	0	0
119 Loan Prior Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
123 sub	343,674	384,289	124,503	164,797	204,931	245,144	285,358	325,572	365,786	406,000	446,214	486,428	526,642
120 Less:Debt Service	1,000	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
121 Fixed Assest Acqu	0	300,000	0	0	0	0	0	0	0	0	0	0	0
122 Note Payments	0	0	0	0	0	0	0	0	0	0	0	0	0
124 sub	342,674	82,889	123,103	163,317	203,531	243,744	283,958	324,172	364,386	404,600	444,814	485,028	525,242
128 chk cash bal	0	0	0	0	0	0	0	0	0	0	0	0	0
129 ck bal	1	1	1	1	1	1	1	1	1	1	1	1	1
130 Cash Ending Bal	342,674	82,888	123,102	163,316	203,530	243,743	283,957	324,171	364,385	404,599	444,813	485,027	525,241

Montana Packing Plant
Cash Flow
Possible Packing Plant

APPENDIX A-17

	Jul 88	Aug 88	Sep 88	Oct 88	Nov 88	Dec 88	Jan 89	Feb 89	Mar 89	Apr 89	May 89	Jun 89	Jul 89
70 Begin Inv - C/B	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
71	0	0	0	0	0	0	0	0	0	0	0	0	0
74	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
Purchases													
75	990,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000
76	660,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000
78	1,650,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000
80 Cost Livestock - C/B	990,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000
81 - F/C	660,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000
83	1,650,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000
85 End Inv - c/b	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
86 - F/C	0	0	0	0	0	0	0	0	0	0	0	0	0
89	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000	66,000
90	115,500	115,500	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840
95 Purchases - C/B	990,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000	1,320,000
96 - F/C	660,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000	792,000
98 Total	1,650,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000
100 Payments	1,650,000	2,079,660	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000
105 Ending -A/P	115,500	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840	147,840
110 Cash Beginning	485,827	525,242	378,114	438,986	483,859	536,731	589,604	642,476	695,349	748,221	801,094	853,966	906,839
111 Income after tax	29,615	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473	42,473
112 Depreciation	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
113 Change in A/R	0	0	0	0	0	0	0	0	0	0	0	0	0
114 Change in A/P	0	0	0	0	0	0	0	0	0	0	0	0	0
115 Change in Invent	0	0	0	0	0	0	0	0	0	0	0	0	0
116 Loan Revnovation	0	0	0	0	0	0	0	0	0	0	0	0	0
117 Loan Working Cap	0	0	0	0	0	0	0	0	0	0	0	0	0
118 Loan Cattle	0	0	0	0	0	0	0	0	0	0	0	0	0
119 Loan Prior Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
123 sub	526,642	579,715	432,587	493,460	538,332	591,205	644,077	696,950	749,822	802,695	855,567	908,440	961,312
120 LessDebt Service	1,400	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
121 Fixed Reserst Acqs	0	200,000	0	0	0	0	0	0	0	0	0	0	0
122 Note Payments	0	0	0	0	0	0	0	0	0	0	0	0	0
124 sub	525,242	378,115	430,987	483,860	536,732	589,605	642,477	695,350	748,222	801,095	853,967	906,840	959,712
128 chk cash bal	0	0	0	0	0	0	0	0	0	0	0	0	0
129 ck bal	1	1	1	1	1	1	1	1	1	1	1	1	1
130 Cash Ending Bal	525,242	378,114	438,986	483,859	536,731	589,604	642,476	695,349	748,221	801,094	853,966	906,839	959,711